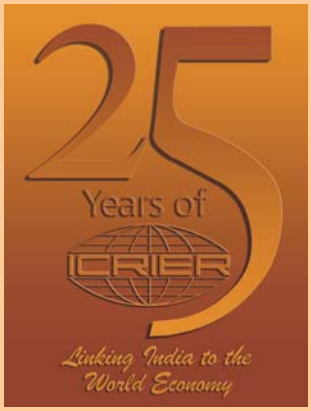

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INDIA – PAKISTAN TRADE

NISHA TANEJA

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Abstract

Quantitative studies estimate that potential two way trade between India and Pakistan can be about 10 times than its rather unsatisfactory current level of $ 613 million. Moving towards realizing this trade potential is clearly in the interest of both countries and the region.

In this context this study identifies areas of trade and investment co-operation between the two countries. On the basis of a survey conducted in three cities viz., Delhi, Mumbai and Amritsar the paper examines the characteristics of firms engaged in Indo-Pakistan trade. It also estimates the transaction costs of trade on the basis of a detailed examination of existing transport arrangement between the two countries and the impact of all extant non-tariff barriers.

The study suggests that the most important step towards enhancing trade would be to adopt the MFN principle as the current policy inhibits trade, lacks transparency and leads to high transaction costs. The study finds that transportation links between the two countries are inadequate and suggests that new rail and road links should be opened. Transaction costs of trading between India and Pakistan are high and can be lowered by implementing some rather simple policy measures that are spelled out in the paper.

The study also examines recent developments in BIMSTEC, ASEAN and in Indo-Sri Lanka and Indo-Nepal trade agreements, and draws lessons to enhance Indo-Pakistan trade.

Key words- South Asia, India-Pakistan trade, commercial policy, MFN
JEL classification- 053, L6, L8, F13

Foreword

Issues relating to India-Pakistan trade are of immense interest not only to both countries but to the whole South Asian region. While it is widely recognised that SAFTA's success depends critically on promoting trade links between the two countries, the area has remained generally under-researched. This paper is a timely and useful contribution to developing a fuller perspective and better understanding of the key aspects of India-Pakistan trade. It comprehensively identifies core issues and bottle-necks, particularly at the firm-level, and also recommends relevant policy measures.

There are three key reasons why trade between India and Pakistan needs to be enhanced ***First,*** viewed in a larger regional context, South Asia is the least integrated region and stronger economic relations between India and Pakistan is key element of regional integration in South Asia. ***Second,*** there are vast untapped trade and investment possibilities between the two countries which can be gainfully exploited with significant welfare gains for their populations. ***Third,*** as natural trading partners with a common border, trading with each other can be substantially higher as the potential is estimated to be 10 times the current level.

This study was undertaken by the author as an assignment for the World Bank as part of a series of studies on Pakistan-India trade. I am sure the study will contribute to enhancing bilateral trade and thereby promoting regional integration.

Rajiv Kumar
Director & Chief Executive
ICRIER

June 2, 2006

India-Pakistan Trade

Nisha Taneja[1]

Trade between India and Pakistan is of immense importance to both countries. The interest in understanding the trade dynamics between the two countries is a recent phenomenon, particularly in India. This interest, in part, has arisen following the signing of the South Asian Free Trade Agreement in January 2004. There has also been a very visible initiative on the part of the private sector to work avidly towards furthering bilateral trade and creating awareness in each other's countries, about the potential for mutual economic engagement.

Intra SAARC trade has been quite meagre. In 1991, intra-SAARC trade as a proportion of trade with the rest of the world was only 3.0 %. By 2004, the share had increased to 4.7%. India is the largest country in the region and its share in total SAARC trade increased from 38% in 1991 to 45% in 2004.[2] South Asia remains the least integrated region compared to East Asia, Europe and Central Asia, Latin America, Middle East and North Africa, and Sub-Sahara Africa. Intra-regional trade in South Asia is only 0.8% of GDP, one eighth of Latin America's level and only a fraction of East Asia's nearly 27% of GDP.[3] Intra-SAARC trade, at US$ 11.5 billion in 2004, could reach newer heights if the potential trade between India and Pakistan is tapped.

One indicator of gauging the potential trade between the two countries is the large informal trade, believed to range between US$ 250 million to US$ 2 billion between the two countries.

I. Purpose and Approach of the Study

The study identifies areas of trade interest, areas of possible joint ventures and other forms of co-operation between the two countries on the basis of existing studies. It identifies barriers related to transportation, banking and visas. It also seeks to identify other non-tariff barriers that arise in the application of measures related to technical barriers to trade (TBT) and Sanitary and Phytosanitary Measures (SPS). The subject of Indo-Pakistan trading is examined in a regional context. The Indo-Nepal and Indo-Sri Lanka Free Trade Agreements have been examined with a view to drawing lessons from them.

In the course of the study it was found that existing studies on the area of study was limited to information available mainly from the Chambers of Commerce. To

[1] Comments by referees from the World Bank are gratefully acknowledged. Meenu Tiwari provided useful comments. R Srinivasulu and Prakash Bhatt provided valuable research assistance.

[2] Calculated from Direction of Trade Statistics, IMF (2006).

[3] World Bank (2004)

understand the status of trade dialogue in the South Asian region, intensive discussions were held with academicians and key government officials from the Ministry of Commerce, Ministry of External Affairs, and the Ministry of Finance. To address the other issues relating to Indo-Pakistan trade, such as, transport logistics and costs, payments mechanism and other non-tariff barriers a primary survey covering exporters, importers and freight forwarders was conducted in three cities namely Delhi, Mumbai and Amritsar. Discussions were held with 12 policy makers and academicians. The survey of traders and freight forwarders in the three cities covered 47 companies.

II. Indo-Pakistan Trade: Secondary Evidence

After the Indo-Pak war in 1965, trade was almost negligible for a period of nine years. Bilateral trade did resume in 1975-76, following the 1974 protocol for the restoration of commercial relations on a government to government basis, signed by the two countries after the 1971 war but it remained at an insignificant level till very recently. Since 1996, trade between the two countries has been at much higher levels than before. In that year India granted MFN status to Pakistan. Pakistan in turn increased its list of permissible items to 600.[4] In 2003, another 78 items were added to the permissible list. Again, in 2004 the permissible list was expanded further to include 72 new items under SRO/927 (I)/2004.[5] Interestingly, neither the Government officials nor the Chambers of Commerce had a list of permissible items covered under SRO 927 (I)/2004, though the Chambers indicated that the Pakistani trade delegations had informed them about the new list.[6] Lack of information on tradeable items itself poses a barrier to Indo-Pakistan trading. By 2005, the number of permissible items stood at 770.

Since 1996, even though trade between the two countries has been fluctuating, the level of trade has been higher than that achieved in 1996. Trade stood at US $ 180 million in 1996 and in 2004 it was US $ 537 million. During this 9-year period, India had a trade surplus with Pakistan in 7 years. (See Table A.2 : Reporting Country India and Graph 1). Recent trade data published by the Directorate General of Commercial Intelligence and Statistics (DGCI&S), Kolkata indicates that total trade between India to Pakistan in 2004-05 was US $ 602 million. (See Table A.1: India Reporting Country). Key exports in 2004-05 comprised of chemicals, mineral products, plastic and rubbers, and food products. Major imports comprised of food and vegetable products and textiles and textile articles. (See Table A.4 and Table A.5). The number of items that India exported at the 8-digit HS code level has been increasing consistently in the last few years. (see Graph 2). The number of items exported increased from 628 in 1999-00 to 1412 in 2004-2005.[7]

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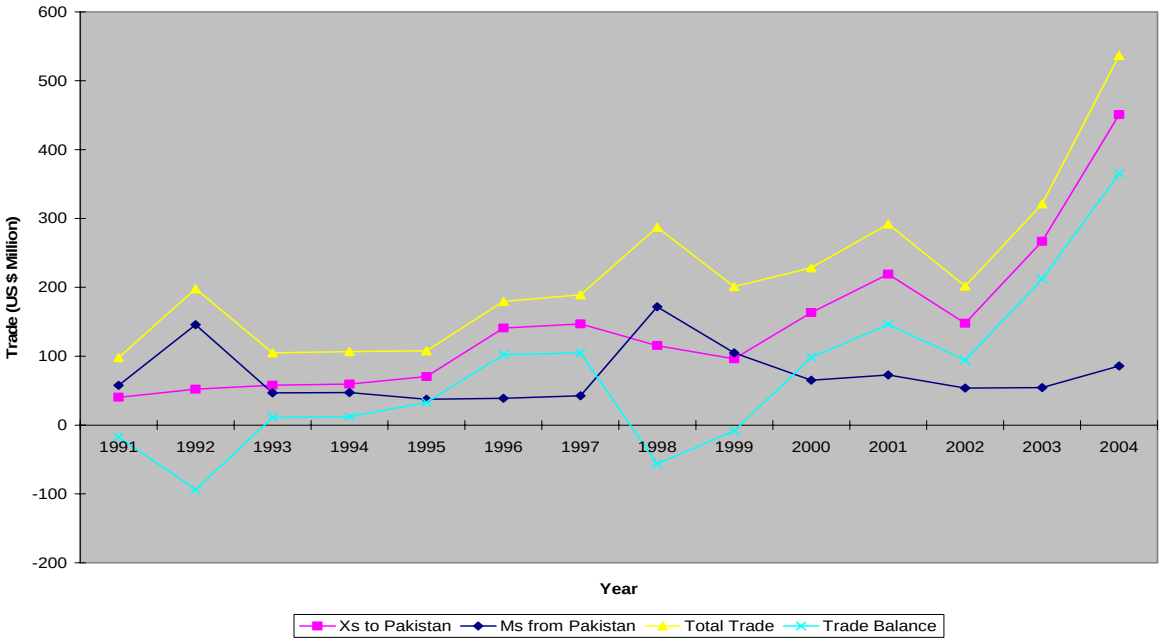
4 Taneja (2004a) Economic and Political Weekly

5 SRO/927 (I)/2004 refers to notification by Pakistan customs.

6 The notification announced in November 2004 was not available in India till March 2005

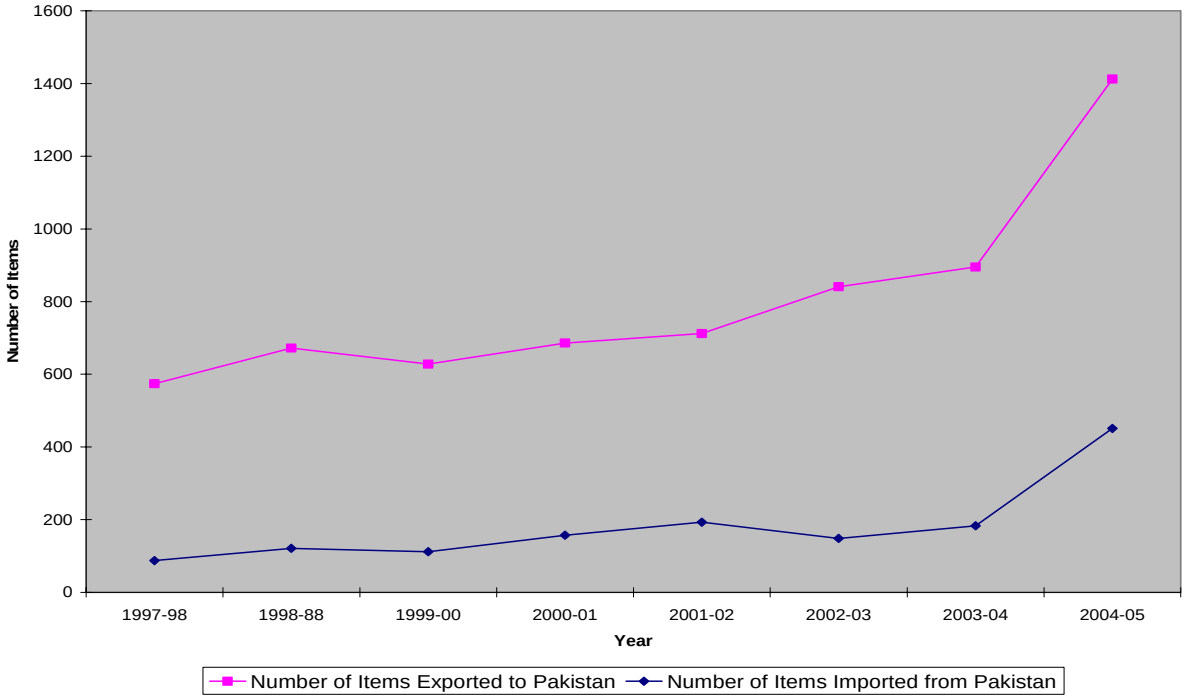
7 Data on India's trade is published by the Ministry of Commerce, Government of India at http://dgft.delhi.nic.in/

Graph 1: India Pakistan Trade



Note: Graph based on Table A.2, India Reporting Country
Source: Direction of Trade IMF (2006)

Graph 2: Number of Items Traded at HS-8 Digit Level



Note: Graph based on Table A.3
Source: Monthly Statistics of Foreign Trade, DGCI&S, Calcutta

The number of items imported from Pakistan on the other hand has shown a more fluctuating trend. India imported 112 items in 1999-00. The number of items peaked in 2001-02 at 193, after which there was a declining trend and then in 2004-05 the number of items traded was the highest ever at 451. (See Table A.3 and Graph 2)

As India and Pakistan are Members of the South Asian Association for Regional Co-operation (SAARC), they have exchanged tariff concessions under the South Asian Preferential Trading Arrangement (SAPTA) Rounds. So far there have been four Rounds of tariff concessions. In the first three SAPTA Rounds 5550 products were offered for concessions by all Member Countries of which concessions on 3439 products were offered exclusively for LDCs. (See Table A.6). In the three rounds, India offered concessions on 477 products for all countries while Pakistan offered concessions on 271 products for all countries. The depth of the tariffs offered by both countries was also modest (See Table A.7). To what extent have concessions in the SAPTA rounds been beneficial to the two countries? Mukherjee (2005) finds that India's preferential import under the SAPTA rounds accounted for 65% of the total bilateral import in 2002-03 while Pakistan's preferential import from India accounted for 32% of total bilateral import. India's preferential imports were concentrated in only 3 of the 21 HS segments namely vegetables, minerals and chemicals. Pakistan's preferential imports on the other hand were more diversified across the HS sections. Further Mukherjee points out that 146 items of the total 250 products offered by Pakistan did not appear on the permissible list.

The positive list approach itself poses a barrier to trade in myriad ways. A code matching exercise carried out by the author between the 8-digit codes of the items exported by India, as recorded by the Directorate General of Foreign trade (DGCI & S) and the HS codes published by Pakistan under the permissible list revealed that there were only 3 common codes. Since items in the permissible list are included at the 8-digit level, code matching has to be undertaken at that level of dis-aggregation. Government officials when questioned on this issue pointed out that the bills of entry were made on the basis of the description of the item and not on the basis of the code. However, several codes mentioned in the positive list do not have a corresponding description. This makes it extremely difficult for exporters to identify items that would fall under the purview of the permissible list. On the other hand, some items recorded by the DGCI &S are not listed in the positive list. These anomalies need to be addressed by policy makers urgently.

III. Trade and Investment Possibilities

This sub-section presents a review of studies undertaken by academia and the Chambers of Commerce in India on trade and investment possibilities between India and Pakistan. Research studies by academia include econometric studies that use the gravity model, the computable general equilibrium models and partial equilibrium models[8] and other studies, which use various trade indices such as the revealed comparative advantage

[8] Baysan et. al. (2004)

index and the trade complementarity index. Most of the research studies focus on intra-SAARC trade but do not specifically focus on bilateral trade flows between India and Pakistan. On the other hand the private sector has shown an active interest in exploring trade possibilities between the two countries. This section also presents a review of studies on informal trade.

III.1. Review of Research Studies

The gravity models try to predict the impact of the arrangement on bilateral trade flows. The computable general equilibrium models are used to predict the changes in consumption, production and trade at the sector level and also welfare as a result of tariff liberalisation. The partial equilibrium studies try capture the effects of trade preferences in specific sectors. All approaches have their strengths and weaknesses.[9]

Studies using the gravity model to predict bilateral trade flows include Sriniavasan and Cananero (1993) and Batra (2004). The gravity model in its most basic form explains bilateral trade as being proportional to the product of GNP of the trading partners and inversely related to the distance between them. Srinavasan and Canonero include tariffs and real exchange rate in the basic gravity model and conclude that under SAFTA, potential gains for India's trade with its regional partners would increase by 13 times while that of Pakistan would increase by 9 times. The study suggests that the effect of removal of tariffs would lead to an increase in trade that is 3% of GNP for India, 7% for Pakistan, 21% for Bangladesh, 36% for Sri Lanka, and 59% of GNP for Nepal. The study also shows that unilateral trade liberalization would yield more gains for the region compared to preferential trade liberalization. Batra (2004), a more recent study estimates the augmented gravity model in which the dependent variable is bilateral trade flows between India and its trading partners and the independent variables include GNP, population, distance, adjacency, commonality of language, colonial links, landlocked areas, island countries, and the existence of preferential trade arrangement. The model thus emphasizes on the natural factors rather than on economic variables such as openness, exchange rates etc. The model estimates trade potential for India with 145 countries. The study shows that the potential for India's trade with Pakistan is the highest in the SAARC region. The model predicts that trade could expand by US $ 6.6 billion over and above the existing bilateral trade level.[10] For Sri Lanka and Nepal the model shows that India's existing trade with these countries is greater than the level of trade predicted on the basis of the model. This indicates that there is a vast untapped potential in bilateral trade between India and Pakistan. The Gravity model also has its weaknesses. One of the weaknesses is the proxying of trade costs by distance. In the context of South Asia, the model form is questionable because even though the countries are geographically contiguous, transport and other transaction costs of trading in the region are very high.

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[9] Discussed in Bandra and Yu (2003) and Baysan et. al. (2004)

[10] Using GNP in PPP terms (even though bilateral flows are measured at current prices) the predicted trade flow between India and Pakistan is US $ 13.1 billion.

Unlike the gravity models, the CGE models are able to predict the changes in consumption, production and trade at the sector level and also welfare as a result of tariff liberalisation. However, the CGE models do not have the predictive power in the way econometric models do since they use the actual data from one specific year called the base year. The model assumes a specific general equilibrium model structure and financial form, and taking a subset of the parameter values as given, calibrates the remaining parameter values to reproduce the equilibrium in the base year. These models have other drawbacks- they do not incorporate rules of origin and also do not incorporate new products that enter into trade following an FTA. In the context of SAFTA such studies include Sengupta and Banik (1997), Pigato et. al. (1997) and Bandara and Yu (2003). Sengupta and Banik predict that intra- SAARC trade would increase by 30% and as much as 60% if illegal trade becomes part of the official channel. Pigato et. al. (1997) look at gains from regional liberalization and under unilateral liberalisation. They find that under regional liberalization, gains to the smaller countries are more than for India. Also, India's gains are much larger in the unilateral liberalization scenario than in the regional scenario. By contrast, the benefits to the rest of South Asia from preferential liberalization are larger than those from unilateral liberalization. Bandara and Yu find that under SAFTA largest gains would accrue to India which is a meagre 0.21 per cent gain in real income. Sri Lanka would gain 0.03 per cent while the rest of South Asia would gain 0.08 in terms of real income. These studies do not report predictions on bilateral trade between India-Pakistan trade. The same is true of studies that employ partial equilibrium framework -Govindan (1994); DeRosa and Govindan(1995) and Pursell (2005). Govindan (1994) estimates price elasticity of demand in the food sector and uses them to estimate the effect of preferential liberalization within the region on intra-regional trade. He concludes that such liberalization would yield welfare gains through increased trade in food within the region. De Rosa and Govindan (1995) extend the analysis to include manufactured goods. Their analysis suggests that the SAPTA agreement could yield substantial benefits for the region, but the South Asian countries are likely to achieve larger gains in trade and economic welfare by intensifying their efforts to integrate their economies with the world economy or with the Asia-Pacific region.[11] Pursell (2004) studies the preferential liberalization of cement industry between India and Bangladesh and finds substantial gains from increased competition within the regional market.

Some studies have computed the revealed comparative advantage indices and trade complementarity indices to examine trade possibilities in the region. Kemal et. al. (2002) examine the pattern of revealed comparative advantage and the degree of trade complementarity in South Asia. They find that for the year 1995, India has a comparative advantage in 49 items while Pakistan has a comparative advantage in 25 items. At the 3-digit SITC classification, India has comparative advantage in a wide-range of food, beverages, including meat, fish, crustaceans, rice, fruits and nuts, tea and coffee, spices, feeding stuff for animals, and tobacco and tobacco products. A number of items in the category of 'crude materials' appear in the revealed comparative advantage profile of India. These items included oilseeds, stone, sand and gravel, iron ore, ores and concentrates of basic metals, and crude animal and vegetable materials. India also

[11] De-Rosa and Govindan (1997)

enjoyed comparative advantage in oils seeds, crude fertilizers, and fixed vegetable oils. The country's comparative advantage in 'chemicals and related products' lies in nitrogen-function compounds, other organic chemicals, synthetic organic colouring material, medicinal and pharmaceutical products, perfumery, cosmetics and soaps, and insecticides and herbicides. In the category of basic and miscellaneous goods, India's comparative advantage is indicated in a wide range of products, prominent among these are machine tools, household equipment, and steel products, besides leather and articles of textile and clothing. India also enjoys revealed comparative advantage in transport equipment such as motor vehicles, motor cycles, and cycles. Pakistan's revealed comparative advantage in food products at the 3-digit SITC classification is indicated mainly in fish and crustaceans, rice, dried fruits, sugar, molasses and honeys. In category of 'crude materials expect fuels', Pakistan enjoys substantial revealed comparative advantage in cotton, besides crude animal and vegetable materials. As in the case of other countries in the region, the textile and clothing group dominates in the revealed comparative advantage profile of Pakistan. Other products in which Pakistan has revealed comparative advantage include leather, floor covering, medical instruments, and baby carriages and toys. Kemal *et. al.* point out further that the potential for intra-regional trade in products in which revealed comparative advantage is indicated depends crucially on the importance of such products in total imports of the region. Thus, prospects for intra regional trade would be stronger in situations where the countries have comparative advantage in products that figure prominently in the regional import structure. In 1995, the share of such products in total regional imports was 22% for Bangladesh, 46% for India, 3% for Nepal, 37% for Pakistan, and 25% for Sri Lanka. This aspect has not been considered specifically for India and Pakistan as trading partners.

In a study undertaken by the Ministry of Commerce, Government of Pakistan, RCAs for Pakistan and India for 1992-94, were calculated for products at the 3-digit SITC level in which the two countries compete internationally. The indices indicate that Pakistan enjoys a strong revealed comparative advantage vis-à-vis India in cotton, cotton-based products, leather and rice. Further, at the 4-digit SITC level for the textile sector, Pakistan is more competitive in cotton yarn, gray woven fabric, bleached woven cotton and hand knotted carpets while India is more competitive in women's non-knit dresses, non-knit blouses and men's shirts. This indicates that India is doing better than Pakistan in value added clothings.[12]

On the other hand trade complementarity at the bilateral level takes into account the overall export-import structures of the trading partners. Based on the computations of the trade complementarity indices for each of the countries in the region with all the others in the South Asian region, Kemal et. al. conclude that even though the degree of complementarity is generally low in the region, it is higher for trade between Pakistan and India relative to other countries in the region. Further, they find that the Grubel Lloyd indices of intra-industry trade between India and Pakistan indicate there are nine items in the category of chemicals and related products in which intra-industry trade took place between India and Pakistan, prominent among them being medicinal and pharmaceutical products, and soap and cleansing preparations. The Grubel-Lloyd indices show some

[12] GOP (1996) and Nabi and Naseem (2001)

intra-industry trade in basic manufactures, such as leather, articles of paper and paperboard, embroidery, made-up articles of textile materials, floor coverings, lime, cement and fabricated construction materials, nails and screws, and manufactures of base metal. Interestingly, there are a number of products in the category of machinery and transport equipment in which intra-industry trade occurred between the two countries. These products range from textile and leather machinery and parts to heating and cooling equipment , and from data-processing machines to medical apparatus. In the category of miscellaneous manufactured goods, infra-industry trade consisted mainly of medical and measuring instruments, photographic supplies, and musical instruments.

These indices however, are based on existing trade between India and Pakistan in 1997. During that year there were only 600 items in the permissible list for import into Pakistan from India. The indices therefore do not shed much light on trade possibilities.

Mukherjee (2002) adopts the Potential Trade Approach under which the Member countries are positioned as suppliers and markets. Products of Member countries that are being traded are first identified. The existing trade between the two countries (if any) is then deducted from the minimum of the two values of world exports of the supplier country and the world imports of the market country to arrive at potential bilateral trade. Mukherjee suggests that tariff concessions should be offered in those items in which the supplier country has an RCA greater than 1. Taking India as a market and Pakistan as a supplier, Mukherjee finds that in 1997, out of 50 items exported by Pakistan and imported by India, 20 items had an RCA>1.[13] Only 5 of these items were exported to India. This exercise not has been done taking Pakistan as a market and India as a supplier due to lack of data.

III.2 Review of Studies by Private Sector

More recent studies/surveys undertaken by the private sector provide an indicator to trade possibilities between India and Pakistan. The private sector has played an extremely active role on Indo-Pakistan trading. One of the most inhibiting factors in Indo-Pakistan trading is the lack of information on quantities and commodities to be traded, trading environment and the policy regimes in the two countries. The Chambers of Commerce and Industry have played an important role in dissemination of information related to trade between the two countries. The Federation of Indian Chambers of Commerce and Industry (FICCI) has been actively engaged in pursuing economic co-operation with the business community in Pakistan since 1995. In fact, since 1995, FICCI has been receiving and/or sending trade delegations from/to Pakistan every year. The highpoint in FICCI's interaction with Pakistan is the formation of the India-Pakistan Chamber of Commerce and Industry (IPCCI) in 1999. This apex body has been formed jointly between FICCI and the Federation of Pakistan Chamber of Commerce and Industry (FPCCI) with the objective of accelerating trade, investment and technical ties between the two countries. FICCI has networked strongly with all leading Chambers including the Chambers from Lahore, Karachi and Islamabad. Trade between India and

[13] The RCA is for the exporting country i.e. Pakistan.

Pakistan has been promoted through other initiatives by FICCI. Being the primary member of the SAARC Chamber of Commerce and Industry, FICCI has organised several conferences and trade fairs. In addition FICCI hosts a special internet service centre to provide information and facilitate business promotion in the SAARC region.

The Confederation of Indian Industry (CII) has also been very active in promoting Indo-Pak trade relations. The twin organizations comprising the Pakistan India/India Pakistan CEOs Business Forum was set up by the Confederation of Indian Industry (CII) in partnership with members of the Young Presidents Organisation (YPO) in September 2003. The Forum was set up with the objective of promoting networking opportunities, facilitating relationship building, improving discussions on policy and procedures and increasing trade and investment promotion.

In recent years the Associated Chambers of Commerce and Industry have also shown a keen interest in enhancing Indo-Pak trade relations.

While FICCI, CII and ASSOCHAM are Chambers at the national level, the Punjab Haryana and Delhi Chambers of Commerce and Industry (PHDCCI) is the apex Chamber of North India serving trade and industry in ten states including the union territory of Delhi. Since the Chamber is a representation of the Northern states, its geographical and ethnic proximity to Pakistan makes it an extremely active Chamber in promoting Indo-Pakistan relations. In fact PHDCCI sponsored the first ever private sector trade delegation from India to Pakistan in 1982. Since then it has signed a Memorandum of Understanding (MOU) with Lahore, Karachi and Gujranwala Chambers of Commerce.

All the Chambers of Commerce have undertaken studies that identify potential items for trade. A study undertaken by CII has identified sectoral synergies across six key sectors in Pakistan and India.[14] The study is based on an analysis of each of these sectors in India and Pakistan. FICCI, ASSOCHAM and PHDCCI have identified potential items based on the feedback given to them by their Members in the industry. The exchange of information at the delegation meetings has contributed to the knowledge base on items that can be traded between the two countries. In addition, using secondary data ASSOCHAM and PHDCCI have identified potential items for export from India by matching items that India exports to the world with those that Pakistan imports from the world. Potential items for import from Pakistan have been identified in a similar manner. In fact PHDCCI (2004) has reported a trade potential of $4.9 billion, indicated by the Export Promotion Bureau of Pakistan using trade data for 2002.[15] In addition, the Tata Economic Consultancy Services, carried out a study on Investment Opportunities in Pakistan on behalf of the SAARC Chamber of Commerce and Industry. A key difference in the academic studies and the studies carried out by the private sector is that the latter sees immense potential in services. On the basis of these studies, trade and investment

[14] CII (2005)

[15] India and Pakistan are positioned as suppliers and markets. Products of both countries that are being traded are first identified. The existing trade between the two countries (if any) is then deducted from the minimum of the two values of world exports of the supplier country and the world imports of the market country to arrive at potential bilateral trade.

possibilities in selected sectors are outlined below. A summary statement listing all the sectors with trade potential are given in Table 8 and Table 9.

Textiles

Textiles and clothing is the largest industry in the manufacturing sector in Pakistan in terms of its contribution to GDP and exports. In 2002-03, textiles and clothing (T & C) contributed to 68% of the export earnings and accounted for 9% of GDP.[16] The textile and clothing industry in India accounts for 4% of its GDP and 17% of total export earnings.[17] Thus, even though India's textile and clothing exports are higher than Pakistan's, they are much more important for Pakistan than for India.

The two countries can trade with each other to improve the supply of different varieties of cotton yarn. India produces good quality short staple yarn whereas Pakistan produces medium and long staple yarn.[18] Also, the short-term shortages in cotton, created by crop fluctuation in both countries can be overcome through trade. Products that have a huge potential market in India are raw wool for the carpet industry, clothing accessories, cotton fabric and hand and machine made carpets. (See Table A.9). There are immense opportunities for a two-way trade in readymade garments, particularly ethnic garments such as shawls, salwar kameez and saaris.

India has in recent years developed an expertise in textile design, including computer-aided design. Export of design services along with other ancillary services to Pakistan can help the textile industry in Pakistan. There is an enormous scope for textile machinery exports from India to Pakistan.

The opening up of the textile market with the phasing out of MFA since January 2005 demands revamping of the textiles industries in both countries to face the new challenges. For instance, in the quota regime, textile and cloth buyers had been sourcing products from multiple sources because of quota limitations, but in the post MFA scenario, there is an increasing trend towards reducing the number of vendors and opting for vertically integrated companies to eliminate inefficiencies in the supply chain. In India, the Government and the industry have taken several steps to deal with open market conditions. Companies are consolidating fragmented capacities, investing in modern technologies and benchmarking operations with global best practices. The Government on its part has provided policy support to make the industry more competitive and efficient. Some of the key initiatives include revamping textile legislation, regulations and inspection system, introduction of an optional CENVAT[19] regime in cotton textile, rationalization of duty on manmade fibres, removing the small scale reservation of the woven garment sector and permitting 100% FDI in the entire value chain of the textile

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16 http://siteresources.worldbank.org/PAKISTANEXTN/Resources/Pakistan-Development-Forum-2004/TextileCityProject.pdf

17 Economic Survey (2003-04) and CII (2005)

18 CII (2005)

19 Central Value Added Tax (CENVAT)

industry.[20] Indian companies however, will continue to face a challenge in reducing lead times through cost-cutting measures. Pakistan will face similar challenges in the coming years as industry is not sufficiently equipped to handle incremental high volume orders from large buyers. While a significant segment of Pakistan's Textile and Clothing exports is competitively positioned, an excessive concentration in the low value added segment of the T&C chain gives a cause for concern.[21] Given that both India and Pakistan face challenges in the post MFA phase, the two countries can co-operate so that they can compete in the international markets.

Agriculture and related products

Despite trade barriers, trade in agriculture items helps to overcome short-term fluctuations in supply. In 1990, India helped Pakistan to tide over an onion and potato crises, and again Pakistan imported 50,000 tons of sugar from India on an emergency basis in 1997. Likewise India has also depended on Pakistan for sugar, potatoes, onions, and chillies at a time of shortage.[22] More recently, Pakistan had a bumper crop in chickpeas in 2003. In April 2003 alone Pakistan exported US $ 4.3 million of chickpeas to India.[23] Trade in agricultural commodities between the two countries could bridge the short term supply shortages caused due to seasonal crop fluctuations. Items of potential export from India are tea, coffee, wheat, oil meals and fresh vegetables. Items of potential import from Pakistan are molasses, dry fruits, fresh fruits.

India and Pakistan are both exporters of processed fish. The two countries have adequate marine resources which could be gainfully tapped to benefit both countries. India and Pakistan can set up joint ventures for the export of value added fish products.

Engineering

India has a strong engineering and capital goods base. In 2002-03 engineering exports were to the tune of US$ 9 billion, accounting for 17% of India's total exports. The key sectors that contributed to exports were automobiles and automotive components, electrical equipment and machinery, steel and machine tools. The cost advantage of manufacturing engineering goods in India is typically lower by about 30% than their European counterparts.[24] Pakistan on the other hand is only meeting 25 per cent to 40 percent of the total demand within the country, while the rest is being met through imports.[25] Imports from India could offer substantial savings. India has emerged as a low cost producer of steel. Imports from India of steel, a major input for engineering goods, could help in reducing production costs of engineering goods in Pakistan. Tata Steel, a major steel producer in India has shown an interest in doing business with

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20 Economic Survey (2004-05)

21 ABN-AMRO (2005); Nabi and Naseem (2001)

22 Zaidi (2004)

23 Aslam (2003a)

24 Meira (2005) CII Symposium on 'India: The New Global Business Opportunity', 11 April, San Francisco.

25 Aslam (1998)

Pakistan.[26] Setting up joint ventures in steel would be very beneficial to the engineering sector.

The growth in the automobile sector in India was spurred largely by the liberalisation policies outlined in the Automobile Policy of June 1993 which contained measures such as delicensing, automatic approval for holding of 51% in Indian companies, abolition of phased manufacturing programme, and reduction in import duties. Liberalisation has continued since then and currently, foreign investment upto 100% is allowed through the automatic route. In addition, import duties have been lowered substantially. As a result there are several global auto players in the Indian market. India is now the fifth largest passenger car market and the second largest small car market in the world. Buoyancy in the automobile sector is also reflected in the rising exports of automobiles. Exports of automobiles increased by three and half times from 134.1 thousand in 1999-00 to 475.3 thousand in 2003-04.[27] On the other hand, the automobile industry in Pakistan has been in the limelight almost consistently for some years now because of the long delays in delivery of locally assembled vehicles, high prices compared to other countries and because of premiums which need to be paid for immediate delivery.[28] High import tariffs on CKDs (completely knocked down kits), high domestic taxes and absence of genuine competition have resulted in a high cost automobile industry.[29] Joint ventures with India would enable Pakistan's automobile industry to become cost competitive but may also provide opportunities for export in the future.

India has emerged as a major component supplier to some of the world's largest auto players such as General Motors, Volvo, Toyota and Honda. The auto component sector in India is fairly diversified and is currently manufacturing around 275 types of components. The growth in the automobile and component sector has also fuelled the machine tool production and exports from India.[30] The automobile industry in Pakistan on the other hand is heavily dependent on high cost imports of inputs.[31] Imports from India could offer substantial savings. India's experience in moving from a protected regime to a liberal one in the auto sector can help in establishing a parallel auto component industry in Pakistan through joint ventures.

Chemicals and Pharmaceuticals

In 2002-03, India's exports of chemicals and related products were US $ 7.5 billion accounting for 14% of total exports. There is a huge potential to export several basic chemicals to Pakistan. In particular, India can export petrochemicals that can be used by Pakistan in the manufacture of a large number of goods including synthetic

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26 http://www.tata.com/tata_steel/media/20050422.htm

27 http://www.ficci.com/ficci/media-room/speeches-presentations/2005/feb/feb12-germany-sme-sg.ppt

28 http://www.dawn.com/2005/05/20/letted.htm#1

29 Aslam (2003b)

30 CII (2005)

31 http://www.indiacar.net/news/n9740.htm

fibres, dyestuffs, plastic products and artificial rubber. The demand for petrochemicals in Pakistan is growing steadily and so is its import. Buying directly from India would mean lower prices for materials used in the export oriented industries such as textile and leather.[32] Joint ventures in the field of petrochemicals would be beneficial to both countries. In recent months, Reliance Industries, a market leader in polyester business in India, has shown an interest in entering into a joint venture with ICI Pakistan Ltd, which also manufactures soda ash, paints, chemicals and life science products.[33]

In recent years, there has been a tremendous growth in specialty and knowledge chemical industries in India. The specialty chemical segment, (comprising of paints and coatings, adhesives and sealants, additives for pharmaceuticals, lubricants, catalysts etc.,) is characterized by vastly differentiated products with a high degree of value addition. The low cost base of specialty chemicals is viewed as the strongest factor for its competitiveness in global markets.[34] Exports to Pakistan in this growing segment can be explored in the near future. The knowledge chemicals industry comprising of agrochemicals, pharmaceuticals, and biotechnology companies is the fastest growing segment of the chemical industry in India. Exports of agro-chemicals to Pakistan are promising. Pakistan is a major producer of agricultural products but the manufacture of pesticides is almost non-existent. Several Indian companies have built strong manufacturing capabilities in this segment and offer potential for joint venture prospects in Pakistan.[35] Exports of Indian pharmaceuticals comprising of both bulk drugs and formulations accounted for 5% of India's exports in 2002-03. Prices of several pharmaceuticals are much higher in Pakistan than in India. For instance, price of zinetac in Pakistan is fifteen times that in India while that for Tenormin -50 in Pakistan is twice the price in India.[36] The pharmaceutical industry in Pakistan lacks basic manufacturing facilities and relies heavily on high priced imports of raw materials. Pakistan could import several of these raw materials from India and reduce its cost of production. India and Pakistan can enter into joint ventures for the production of bulk drugs. The arrangement can be in terms of technology supply and marketing support. R and D is critical for the success of the pharmaceutical industry. The Indian process patent regime encouraged research in the area of processes and reverse engineering. In the last few years, as India has been preparing to move towards a product patent regime, R and D expenditure has increased to much higher levels. Several multinational companies are locating their research and development centres in India as India offers excellent scientific talents. R and D can be carried out at a much lower cost than in developed countries. In recent years India has also emerged as an R&D hub for drug design and pre-clinical testing. India and Pakistan could benefit through collaborative ventures in R and D.

There are also trade and investment opportunities in personal care products, particularly herbal products. Dabur, a leading Indian company in personal care products

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32 Aslam (2003a)

33 http://www.dawn.com/2005/05/11/ebr5.htm

34 KPMG (2000) The Indian Chemical Industry

35 SAARC Chambers of Commerce and Industry (2000)

36 FICCI (2003)

has recently signed an MOU with a local Pakistani partner but production has not started as yet.[37]

As India and Pakistan have moved to a product patent regime, the TRIPS Agreement poses new challenges for exports from the developing countries. The two countries can collaborate to deal with the new regime.

Health

Healthcare in India has undergone significant changes with the entry of private players in the healthcare sector. India offers specialized healthcare facilities such as cardiac surgery, cancer treatment, dental, eye and cosmetic surgeries at competitive prices. Indian hospitals such as Apollo and The Escort Heart Institute and Research Centre (EHIRC) have set up hospitals in several countries including those in the neighboring countries of South Asia. Some Indian hospitals have also set up specialized centres in foreign hospitals. For instance, Escorts entered into a management contract with Durdans hospital of Sri Lanka to set up a heart care centre. During the period of contract, doctors from India performed several heart surgeries and trained Sri Lankan doctors. Similar models could be set up with Pakistan. India could also enter into joint ventures with hospitals in Pakistan. Pakistani patients could also come to India for treatment. EHIRC has a hospital in Amritsar. Easing visa restrictions would greatly help Pakistanis to come to Amritsar for treatment. So far, only a handful of Pakistani patients have visited India for treatment. Removal of visa restrictions for patients, and for doctors would greatly facilitate such trade.

Entertainment services

India and Pakistan share a common culture, hence there is scope for trade and co-operation in the film, television and music sector. India is the second largest producer of films (around 900 per year). On the other hand Pakistan produces very few movies. Currently, Indian films are not allowed to be screened in Pakistani theatres (and vice versa). Several Pakistani movie theatres have closed down due to dwindling audiences for Pakistani movies. Cinema owners in Pakistan are keen to telecast Indian movies so that profits can be revived.[38] Cinema owners feel disadvantaged because the government has not been able to curb the booming business in pirated Indian film CDs. They also lose out because Indian films are being screened on Pakistani cable television.

There is an interest in India and Pakistan for each other's music both audio and visual. This is evident from the fact that Indian music CDs are being sold illegally in the Pakistani market. There is also a demand for live Pakistani and Indian music performances.

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37 http://www.worldoffoodindianews.com/Food_News.asp/id/120,

38 Gill, A. (2005) 'Pakistani cinemas want to show Indian movies', Daily Times 27, February

There is a lot of interest in Pakistan to watch Indian television serials and in India to watch Pakistani plays.

The trade potential in the entertainment industry particularly in films, television and music can be tapped by encouraging joint productions. Removing the ban on screening movies would benefit both countries.[39] Exchanging broadcasting rights to telecast each other's programmes on television is yet another trade opportunity for the two countries. Removal of visa restrictions would encourage individuals to participate in each other's entertainment industries.

Information Technology

India has established itself as a major player in the information technology segment. The software export boom, which began in the late 1980s, has continued, though over time there has been a shift in the mode of delivery from onsite to offshore. Two changes namely web-based export delivery and import liberalisation made this shift possible.[40] Software exports in 2002-03 were to the tune of US $ 9.5 billion. Key success factors are - a huge reservoir of trained software professionals particularly in the areas of software design, project management and network design and management and a large English speaking workforce. The software industry in Pakistan is still in its nascent stages though it has a huge potential to emerge as a major software exporting and training centre. India and Pakistan could enter into joint ventures to tap the global market for software. The National Association of Software and Service Companies (NASSCOM) of India and the Pakistan Software Houses Association (PASHA) have taken an initiative towards this end. In the first ever Indo-Pak IT Summit held in 2004, five Pakistani IT companies signed business deals with Indian companies.[41] In recent years India has emerged as a leading supplier in the information and technology enabled services, (ITES) segment, also referred to as Business Process Outsourcing, which involves the outsourcing of processes that can be enabled through information technology. Outsourcing to India has helped companies achieve 40-50% cost savings. In 2002-03, the Indian BPO segment, comprising of several services such as customer care, finance, human resources, billing and payment services, administration and content development was US $ 2.3 billion. India is gradually moving towards higher value added service lines such as engineering and design, knowledge processing, logistics etc.[42] In Pakistan also this segment is growing gradually. At present there are 60 BPO companies. Pakistan has launched an aggressive effort to woo global corporations to farm out technology tasks.[43] India and Pakistan could jointly tap the global market. Spanco Telesystems and Solutions

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39 The first Bollywood movie, financed by a Bulgarian producer was screened in Pakistani theatres after 40 years (reported in Times of India, May 5, 2005). This sets a precedent and may be a beginning of a 'film diplomacy'.

40 Desai (2003) 'The Dynamics of the Indian Information Technology Industry, DRC Working Paper No. 20, Centre for New and Emerging Markets, London Business School.

41 http://us.rediff.com/money/2005/feb/17inter.htm

42 NASSCOM (2004) ' The IT Industry in India', Strategic Review.

43 http://economictimes.indiatimes.com/articleshow/1020089.cms

Ltd from India has signed a Memorandum of Understanding (MoU) with Millennium Software Pvt Ltd (MSL) based in Karachi, to set up a call center in Karachi for its international and domestic requirements.[44]

The Indian IT training market has also grown significantly. Several training institutions such as NIIT APTECH and SSI have set up training centres in many countries including South Asian countries. India and Pakistan could enter into collaborative arrangements to set up training institutes in Pakistan which would enable enlarge the technical workforce in Pakistan.

Tourism

Tourism holds immense potential for the two countries. Currently, movement of people is limited due to visa restrictions. In recent months, however, despite the visa restrictions, there has been an increase in the number of visas granted. India has been granting around 10,000 visas to Pakistani nationals. Pakistan on the other hand has been issuing around 300 visas per month.[45] The potential for tourism is indicated by the fact that nearly 15,000 Indians visited Pakistan in March 2004 to watch the cricket match. An important player would be a tourist, who for kinship, historical, religious, business and pleasure trip would travel between the two countries. An improvement in infrastructure, particularly transportation by the land route would be a crucial determinant. The recent bus service between Srinagar and Muzaffarabad since April 2005, is a major step in this direction.

Energy

There is immense potential for co-operation in the energy sector. India has a large demand for energy. Pakistan's potential role can be seen not as a supplier but as a potential transit route for energy from Iran and Central Asia. It is estimated that Pakistan would gain between US $600 to US$ 800 million per year in transit fees. It would also be able to use the pipelines for its own energy needs. India would benefit from diversified sources of pipeline gas and lower dependence on more expensive liquid natural gas.[46] India has a strong manufacturing base for the production of liquefied petroleum gas (LPG) cylinders. India and Pakistan could enter into a joint venture for the manufacturing of LPG cylinders.

III.3 Review of Studies on Informal Trade

Studies on informal trade are yet another indicator of trade possibilities between India and Pakistan. A recent paper by Taneja (2004) summarizes the available estimates

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44 http://www.ciol.com/content/news/2005/105032303.asp

45 Information obtained through reliable sources.

46 Sangani and Schaffer (2003)

of informal trade in the region. Total informal trade is about US $ 3 billion, of which 68% is accounted for by Pakistan alone. (See Table 10) The value of informal trade between India and Pakistan is estimated at US $2 billion, half of which is traded through third countries (technically official trade) such as Dubai, CIS countries and Afghanistan while the other half is cross-border informal trade.[47] The estimate is, however, not based on any methodology. A more conservative estimate by Government of Pakistan places such estimates in the range of US $ 100 and US $ 500. The former is based on visits to various markets for smuggled goods while the latter is based on interviews with customs officials. Taking an average of these two guesstimates, the new guesstimate places the value of smuggled Indian goods into Pakistan at US $ 250 million. [48]

Mukherjee (2001) indicates that unofficial exports through both routes comprise of machinery, cement, tyres, tea, medicines, videotapes, alcoholic beverages, chemical products, steel utensils etc.[49] Informal imports from Pakistan consist of food items, synthetic fibres and some chemical products. FICCI (2001) shows that commodities being smuggled to Pakistan through third countries comprise of industrial machinery, cement, tyres, chemicals and tea. Commodities being smuggled into India are pulses, edible oils, spices and dry fruits. Based on a survey of firms ASSOCHAM (2004) indicates that items traded informally from India to Pakistan comprise of textile machinery, tannery equipment, machine tools and equipment/spares, cotton fabrics, viscose fibre, tyres, confectioneries, cashew nuts, chemical products, cosmetics, alcoholic beverages, stainless steel utensils, ayurvedic medicines, video tapes and cassettes. Items traded informally from Pakistan to India comprise of plastic goods, synthetic fibre, melamine dinner sets, textiles and clothing, woollens, and food items such as sugar, edible oil and vegetable ghee. In fact, informal exports from India cover the range from low cost mass scale produced goods to Indian branded items such as Tata's tea Tetley and products made by Dabur and Pioma Industries.[50] The Government of Pakistan (1996) study identifies the principal informal imports from India to be cattle, beetle leaves and nuts, spices, tea, tyres, tubes and pharmaceuticals. A summary showing all products traded informally is presented in Table 11.

III. 4 Summary

A Review of the academic literature on Indo-Pak trade potential indicates that econometric studies have used Gravity Models, Computable General Equilibrium Models, and Partial Equilibrium Models to predict trade flows in the South Asian region. However most of these studies have either focused on predicting intra-SAARC trade or SAARC trade with other regions in the world.

Batra (2004) uses the gravity model to predict potential bilateral trade between India and Pakistan to be US $ 6.6 billion above existing levels of trade. Even though the

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47 Economist (1996)

48 Government of Pakitan (1996)

49 Mukherjee (2001)

50 Economic Times (2003)

model focuses on natural factors and excludes economic variables such as openness, exchange rates etc, in the context of Indo-Pak trade it indicates the vast untapped potential that India and Pakistan have as natural trading partners. However, the use of gravity models to predict trade flows in South Asia suffer from one major weakness. Even though, the countries in the region are geographically contiguous, transportation and other transaction costs of trading in the region are very high. Estimates on informal trade also give an indication of the trade potential between the two countries. The "guesstimates" of informal trade, vary between US$ 250 million to US $ 2 billion indicating the vast untapped potential.

Revealed Comparative Indices indicate that at the 3-digit SITC classification India has a comparative advantage in 49 items while Pakistan has a comparative advantage in 25 items. However, such indices do not give much indication on trade possibilities, unless they figure prominently in the importing country. Intra-industry trade indices indicate that there is intra-industry trade in basic manufactures, machinery and transport equipment and miscellaneous manufactured goods. These indices too have limited applicability in the case of Indo-Pakistan trade, since such indices are based on existing trade that occurs in a limited number of items on account of a positive list approach followed by Pakistan. Another shortcoming of studies that use the revealed comparative indices and intra-industry trade indices is that they do not include services.

In recent years, the private sector has played an active role in identifying areas of trade interest, areas of possible joint ventures and other forms of co-operation between the two countries. Main sectors identified for trade (export and import) possibilities between the two countries are textiles, agriculture, engineering, chemicals, electronics and metals and minerals. Sectors in which export possibilities for India exist are pharmaceuticals, rubber and plastic. Unlike the academic studies, studies undertaken by the private sector see a large scope for trade in several service sectors such as health, entertainment services, information technology, energy and tourism. Investment possibilities in Pakistan exist in sectors such as fish processing, chemicals and pharmaceuticals, automobile components and information technology.

Information from secondary sources on import possibilities from Pakistan is inadequate. Similarly, information on investment possibilities is inadequate. Currently there are no Indo-Pak joint ventures, but in recent months several companies such as Dabur, Tata Steel, Reliance Industries, Spanco Telesystems and Solutions Ltd and some software companies have evinced an interest in investing in the Pakistani market.

IV. Indo-Pakistan Trade: Primary Evidence

Trade in identified potential sectors can be realized only if there is an understanding of the trading environment in which such trade takes place. It is important to examine the characteristics of firms engaged in Indo-Pakistan trade in terms of entry characteristics, information channels, aspects of risk, role of ethnic networks in trading and financing. It is also important to identify the non-tariff barriers to trading particularly those related to visas, trade logistics and the conventional non-tariff barriers that arise in

the implementation of measures such as Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS) Measures.

The analysis was undertaken through a primary survey. To begin with, firms trading with Pakistan were identified for the study. Such firms were identified from websites that provide information on trading companies in India.[51] Three cities, Mumbai, Delhi and Amritsar were selected for the survey. Preliminary discussions with Government, and industry representatives revealed that Delhi and Amritsar had a large population of traders who had ethnic links with traders in Pakistan. Mumbai was an important center from where trading to Pakistan took place as the Mumbai-Karachi sea route was the most feasible route for trading. The survey included trading firms (exporters and importers) and freight forwarders. Trading firms were interviewed to understand the transacting environment. To understand the trade logistics and transaction costs incurred in trading with Pakistan information was sought from both traders (exporters/importers) and freight forwarders.

The sample covered 19 trading firms in Mumbai, 9 in Delhi and 6 firms in Amritsar. (See Table 1). In addition 13 freight forwarders were interviewed in the three cities to elicit information on transaction costs. Results from the survey in the text are presented in percentages instead of actual number of firms so that figures are comprehensible. It may be borne in mind that the sample size is small and the results are only indicative. Tables A.13 to A.18 based on survey of trading firms are presented in terms of both number and percentage of firms.

Table 1: Distribution of Firms in the Sample

	Number of Trading Firms	Number of Freight Forwarders
Mumbai	19	3
Delhi	9	8
Amritsar	6	2
Total	34	13

Source: Survey (2005) January

An interesting feature observed while drawing the sample was that several firms that had posted themselves on the internet as firms trading with Pakistan, when contacted, denied that they ever traded with Pakistan. Sixty per cent of the firms contacted in Delhi, 29% in Mumbai and 40% in Amritsar denied trading with Pakistan.[52] Information from larger companies, including some multinational companies was more forthcoming than from small and medium companies. It was possible to elicit more information from newer firms (firms that had been trading with Pakistan for less than five years) than older firms.

[51] www.trade-india.com and www.indiamart.com The websites provide information on exporters/importers and service providers such as freight forwarders and customs clearing agents

[52] Two companies mentioned that they had queries from the police in Pakistan due to which they had stopped dealing with Pakistan.

IV.1 Characteristics of the Sample

Of the 34 trading firms, four firms were importing, four were importing and exporting and the rest were engaged in exporting alone. (See Table A.12). The firms interviewed were found to be exporting food products (47%), chemicals (12%) and pharmaceuticals (29%). Twenty-four percent of the firms were exporting miscellaneous items. Twenty-one percent of the firms were importing food items, mainly dry dates and 3% of the firms were importing raw wool. (See Table A. 13). Thirty five percent of the firms were exporting/importing less than Rs 10 million. (See Table 14). Fifty percent of the firms in the sample were exporting/importing less than 10% of their total trade to/from Pakistan. (See Table A. 15). Ninety-four per cent of the firms were trading with countries other than Pakistan.

IV.2 Trading Characteristics

While trade between the two countries has been at low levels, and the political situation between the two countries has not always been conducive to trade, it is interesting to analyze firm behavior and the trading environment under such circumstances. The questions posed are:

(i) for how long have firms been trading with Pakistan?
(ii) how do firms enter trading and how do they locate their trading partner?
(iii) how are banking transactions dealt with?
(iv) what are the non-tariff barriers faced by traders?

It has often been the view that firms trading with Pakistan, have been in the trade for several years. Ethnic links between trading partners in both countries facilitate trade, minimize risk and also serve as an important channel of information flows on quantities and commodities to be traded.

The survey revealed interesting results. Contrary to our expectation, 35% of the firms had been trading with Pakistan for less than five years. (See Table A.16). Most of the new firms were located in Mumbai. Further, the survey revealed that 62% of the firms located their trading partner through friends and relatives and 35% of the firms located their trading partner through the internet. (See Table A.17). The government and the Chambers of Commerce did not play any significant role in helping traders identify a partner. In sum, entry of new firms into trading with Pakistan indicates anonymous entry into trading which is facilitated by modern modes such as the internet.

Traders were also asked about the problems they faced in banking. Several firms pointed out that some Indian banks do not recognize L/Cs from all Pakistani banks. Also firms have pointed out that confirmation of L/Cs can take up to a month. Sometimes payments are delayed as the banks point out discrepancies in the L/Cs. Some firms also mentioned that they were trading without an L/C. Because of the problems related to acceptance and confirmation of L/Cs, sometimes trade transactions are carried out

through a contract offered by the bank, which states the details of the trader and of the transaction. However, such contracts do not offer any guarantees but trade is carried out on the basis of trust. An interesting finding in the survey was that 50% of the firms were settling their payments through the Asian Clearing Union.[53] Trading partners in both countries are required to have an ACU account with a bank in their respective countries. While payments through the ACU are ensured, there is often a delay. This is mainly because the ACU has weekly clearing tranches.

Information was sought on the extent to which firms were facing non-tariff barriers in exporting to Pakistan. Barriers are often encountered in the application of measures related to standards necessary to protect human, animal or plant life or health, to protect environment and to ensure quality of goods. Firms were asked whether they faced any problems in meeting standards related to process, product specifications, labeling, testing and certification. The survey revealed that the exporting firms did not face any problems. Interestingly, this was so because the application of standards to Indian goods was not very rigid. For instance, the chemical and pharmaceutical firms mentioned that sometimes they were asked to remove any labeling that indicated that the product was 'Made in India'. Since 94% of the firms were exporting to other countries, importers in Pakistan accepted the Indian certifications used for other countries. Interestingly, traders pointed out that when importers come to India for a visit they do not carry out any serious inspections. In the course of the survey when firms were asked about whether importers come to India to inspect the manufacturing plants for certification, they stated that importers come to India to see the products but do not undertake any inspections to check on implementation of standards. While the importing firms in the survey did not face any non-tariff barriers in implementing standards, at an Indo-Pakistan business meet held by ASSOCHAM,[54] importers of molasses pointed out that they were facing barriers in importing. It was pointed out that Indian authorities insisted that molasses could be packaged in drums only and not in tankers which raised the cost of transportation considerably. Indian authorities point out that the restriction is imposed for security reasons.

Another barrier faced by the entire business community is related to visas. Visas can be obtained only for specific cities prior to entry into Pakistan (and vice-versa). Also, police reporting on arrival is a major irritant. Traders have also pointed out that the restriction on exit from the city of entry alone curbs the business plans and adds to cost and additional time. In Amritsar traders have pointed out that it is difficult for Pakistani traders to get visas for Amritsar, hence, they meet their trading partners in Delhi.

Traders in Amritsar also pointed out that whenever there are disturbances at the Indo-Pak border, the mobile connections are not operational. This hinders communication with trading partners.

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[53] The Asian Clearing Union was set up in 1974. It has seven Members - Iran, Nepal, Pakistan, Sri Lanka Bangladesh, Myanmar and Bhutan.

[54] Indo-Pak Business Meet held on 9th December, 2004, organized by ASSOCHAM .

IV.3 Trade Logistics

Goods move by air, sea, and rail between India and Pakistan. While road routes for trade are non-existent, rail and air connectivity between the two countries has been erratic.[55] The sea route between Mumbai and Karachi has operated unhindered and has been the only consistent operational link. Since Pakistan allows only a limited number of items to be imported from India, those not on the permissible list are being traded through Dubai. In other words goods are transported by ship from Mumbai to Dubai and then to Karachi. Technically, this is an official route. Interestingly, in the course of the survey it was found that sometimes, goods actually move from Mumbai to Karachi, but the bill of lading shows the origin of the goods as being from Dubai, Hong Kong or Singapore. Such a bill of lading, is illegal and in the shippers' jargon is called a *'switch bill of lading'* (SBL) which can be obtained at a cost/bribe. The land route (by rail) is operational through the Attari/Wagah border in Punjab. The closest commercial cities to the border stations are Amritsar in India and Lahore in Pakistan.

Since there are only two main operational routes for goods to be transported to and from Pakistan, traders are faced with a very limited choice of route. For a trader based in Mumbai, trading by sea from Mumbai to Karachi is the most feasible route. Goods are also sourced from other cities in Maharashtra and Gujarat. Similarly, the land route across the Attari/Wagah border is used by traders who source their goods from Amritsar or from other cities located in Punjab, Delhi, Haryana, Jammu and Madhya Pradesh.

Due to bottlenecks in trading through the land route, (discussed later) exporters are forced to use the sea route even if they are located in far off places. The sample indicated that while 15% of the firms in Amritsar traded across the Attari/Wagah land border, 3% of the firms used the land-cum-sea route Thus goods are first transported by the land route to Mumbai and then to Karachi by sea. In Delhi 18% of the firms used the Attari/Wagah land route while 8% of the firms based in Delhi used the land route to transport their goods to Mumbai and the sea route from Mumbai to Karachi. (See Table A.18)

IV.3.1 Rail and Road

It may be mentioned that several rail links have been operational prior to the Indo-Pak war in 1965. (See Table A.19). The Khokrapar-Munabao rail crossing, closed since the 1965 war, links Pakistan's largest city, Karachi, with India's largest city, Mumbai. In December 2004, the two countries in a joint statement stated that they had reached an agreement on re-opening the line and would begin rebuilding the long-ruined infrastructure.[56]

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[55] Following the attack on the Indian Parliament in December 2001, air and rail links between the two countries were suspended. Amid a peace process begun in April 2003, passenger air links were restored at the end of 2003. In January, 2004 rail service reopened between the two countries.

[56] Michael Kitchen (2004), 'India and Pakistan to Reopen Key Rail Link' December 3. http://www.globalsecurity.org/wmd/library/news/pakistan/2004/pakistan-041203-247bd99b.htm

Goods are transported by rail or by road to Amritsar from where they go by train across the Attari/Wagah border. Goods move either by the goods wagon or by parcel wagons that are attached to the Samjhauta Express- the passenger train.[57] The number of rakes/wagons[58] that can ply from Attari to Amritsar are determined usually on a monthly basis. There is no fixed timing for a goods train but the trains do not move across the border after 5:00 p.m. due to security reasons.[59] Under a reciprocal arrangement between the two countries, the wagon balance has to be cleared every 10 days between the two countries. The Indian Railways crew and engine is allowed to carry the wagons till the Attari/Wagah border only (and vice-versa) from which point the wagons are transported by Pakistani rail engine head.[60] Goods that are transported by Samjhauta Express by parcel wagons move at fixed timings on a bi-weekly basis. The same number of parcel wagons (ten) move on every trip, whether loaded or unloaded.

Graph 3: Major Transportation Routes

Note: Edited map to highlight relevant sea and land routes.

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57 The capacity of a goods wagon is 24 tons whereas that of a parcel wagon is 55.5 tons.

58 One rake carries 1750 tons

59 This is similar to movement of goods train through the Indo-Bangladesh border.

60 The Indian crew and engine does not move into the Pakistani territory and vice-versa. Only the wagons are allowed to move from one country to another with the respective country's engine and crew.

The mechanism in place, particularly in the case of goods wagon poses several problems to traders. First, there is a scarcity of wagons since supply of wagons does not always match demand. Second, since the wagon balancing takes place only thrice a month, there is a scarcity of wagons till such time that that there is a zero balance. The scarcity and availability of wagons leads to transaction costs in the form of bribes, which is as high as US $ 2.5 per ton. Third, the frequency of the goods train is erratic. The uncertainty created in this manner translates into additional transaction costs for traders. Traders employ agents whose job is to get information on the departure/arrival timing of the goods train. Fourth, to deal with the demand for wagons, the railways are giving priority to perishables like ginger, fresh vegetables, soy meal and sugar while high value goods like tyres and books have to wait longer for wagons.[61] Exporters have mentioned that 75% of the available wagons are needed for tyres alone.[62] While the average time to get wagons is 9 days, for tyres, the wait has been reported to be up to 23 days. Some exporters have also mentioned that their L/Cs have expired due to a delay in wagon availability. On the other hand railway authorities have stated that the number of wagons can be increased only if there are adequate handling capacities in Pakistan. Also, since wagon balancing takes place only thrice a month, the opportunity cost of having the wagons parked in Pakistan is very high.

Traders face several other problems. Traders have pointed out that there is no provision for movement of containerized rail cargo from Amritsar. This is on contrast to such facilities being available on major rail routes in the hinterland. The wagons that are used currently are also antiquated. Traders have also pointed out that unloading goods at Lahore can sometimes take several days.

It may be noted that till November 2004, there was no problem of availability of wagons. Since then, there has been an acute problem due to increased demand.[63] As large exporters are able to book full rakes, and are also able to pay higher bribes, the burden falls on small exporters.

Since goods can be brought to Amritsar by road or by rail, a comparison between the two modes of transport is relevant. In India, for shorter distances, e.g., Delhi-Amritsar, road transport would be a preferred mode. In the absence of a road route across the Attari/Wagah border, the transshipment of goods from road to rail adds to transport and transaction costs.

Goods brought into Amritsar, go through customs clearance at the Amritsar Customs House. Transaction costs in the form of bribes are incurred in getting customs clearances. Often unnecessary queries are raised on bill of entry/shipping bill with the purpose of extracting bribes.[64] It may be noted that there are no EDI facilities available for filing a shipping bill/bill of entry. This is in contrast to such facilities being available

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61 Arun Goyal http://economictimes.indiatimes.com/articleshow/msid-993403,prtpage-1.cms

62 The Amritsar Exporters Chamber of Commerce

63 This situation has continued as has been reported during the field survey in January-February 2005.

64 For instance, a shipping bill/bill of entry can be stalled because of a spelling error.

at the Indo-Bangladesh and Indo-Nepal borders.[65] A disadvantage for traders sending their goods by rail/road from another city e.g., Delhi, is that the bill of lading can be issued only from Amritsar and not from Delhi. It needs to be noted that this facility is available to traders when goods are transported on a main route such as Delhi-Mumbai-Karachi involving inter-modal transshipment.

IV.3.2 Sea

The Nhava Sheva port in Mumbai, India's largest port, is considered as a regional hub port. However, the port efficiency continues to be low both on account of ship waiting time and cargo dwell time resulting in delays. Interestingly, the delays for shipments going to Pakistan are the same as that faced by those going to other countries. Bribes are common for port and custom clearance.

Maritime trade between India and Pakistan is governed by the 1974 protocol between the two countries on resumption of trade. The protocol does not allow third country flagships/vessels to lift India/Pakistan-bound cargo. Also, it does not allow the flag carriers of both countries to lift cargo for a third country from each other's ports. Despite these restrictions, at the current level of trade, traders do not face any additional problems on the Mumbai-Karachi route compared to other sea routes. In other words, trading with Pakistan does not imply additional inspections or clearances.

IV.4 Transaction Costs

A key question posed in the study is - what are the transaction costs being incurred by traders on alternative routes? Five factors account for high transaction costs of trading - limited transportation routes, shipping protocol between the two countries, restriction on the number of items permitted into Pakistan from India, non-availability of rail wagons and procedural clearances. Transaction costs are incurred both in terms of money and time. For the purpose of the study, transaction costs (in money terms) include cost of transportation and bribes to rail authorities, police, port authorities and customs for various procedural clearances. Transport and other transaction costs were obtained for a 20 feet ship container load of 18 tons of soy meal. Costs related to transportation by rail and road were calculated for an equivalent amount (18 tons) of soy meal.[66] This item was selected because it is a homogenous commodity. Also at the time of the survey it was easier to locate freight-forwarders and traders dealing with soy meal. Transport and other transaction costs are presented in two forms in Table 2 and Table 3 - (i) costs per container which allows cost comparisons in absolute terms as traders often do not have the option of transporting goods through the most desirable/direct route (Table 2) and (ii) cost per container per kilometre, which is used as a performance/efficiency indicator for

[65] There are only two border points, Raxaul at the Indo-Nepal border and Petrapole at the Indo-Bangladesh border at which EDI facilities are available.

[66] The value of 18 tons of soy meal is US $ 4000.

alternative routes and allows ranking of costs incurred on all possible routes. The discussion on transaction costs is largely based on Table 3.

The key land routes under study are the Delhi-Attari rail route, Delhi-Attari road-rail route and the Delhi-Mumbai-Karachi land-cum-sea route which is used because the Delhi-Attari route is not always accessible. The key sea routes are the Mumbai-Karachi sea route and the Mumbai-Dubai-Karachi route. The latter is used to transport items not on the permissible list. The Mumbai-Karachi sea route using a switch bill of lading (SBL) is also considered to illustrate the magnitude of transaction costs on an illegal/unofficial route.

The survey reveals that the Mumbai-Dubai-Karachi and the Delhi-Mumbai-Karachi routes are the most efficient routes in terms of transport/transaction cost incurred per container-kilometre.(See Column 7 and 8, Table 3). Both these routes are indirect routes. While the former is opted for instead of the direct Mumbai-Karachi sea route the latter is used as an alternative to the choked land route. If however, transport and transaction costs are not normalized over distance, costs per container on the indirect route are much higher than the direct routes. Thus, on the Mumbai-Dubai-Karachi route transport costs could be 1.4 to 1.7 times while transaction costs could be 1.3 to 1.7 times the cost of transporting directly between Mumbai and Karachi.[67] The discrepancy is even more glaring in the case of the Delhi-Mumbai-Karachi route where transport costs are 3.1 times and transaction costs are 2.7 times the direct route between Delhi to Attari. (See Columns 2 and 4, Table 3).

The ranking of the two indirect routes in terms of cost efficiency remains unaltered even if bribes are included in total transaction costs. However, inclusion of bribes changes the ranking of the Mumbai-Karachi route using a switch bill of lading to the lowest. (See Columns 7 and 8, Table 3). Bribes as a proportion of total transaction cost are the highest on this route accounting for 30% of total transaction cost. This is expected since it is an illegal route and not officially available to traders. This route is also relatively unattractive to the Mumbai-Dubai-Karachi route as total transaction costs could sometimes be the same on both routes. (See Column 4, Table 3). Traders would therefore opt for the official route. All the other routes under consideration are legal routes. Bribes on the direct land routes account for 17% to 18% of total transaction cost and on the Mumbai-Karachi and Mumbai-Dubai-Karachi route bribes range between 3% to 5%. (See Column 6, Table 3)

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[67] Freight costs on the Mumbai-Dubai-Karachi route are around US $ 950 but could be as low as US$ 750 per container on account of low freight rates for goods moving from Dubai to Karachi. The price advantage usually accrues to agents operating from Dubai, but may sometimes be shared with Indian exporters. Freight costs are often determined by the freight trade balance between two countries. Since Pakistan has a trade surplus with Dubai, containers moving back from Dubai to Karachi are not fully loaded and are therefore offered to Indian exporters at concessional rates. Further, if the same freight rule is applied to goods moving between India and Pakistan, then given that India has a trade surplus with Pakistan, freight costs of transporting goods from Pakistan to India should be less than cost of transporting goods from India to Pakistan. Freight forwarders, when questioned about the freight rates on the Mumbai Karachi route pointed out that the costs in both directions is the same. This is because; the shipping protocol between India and Pakistan allows only Indian and Pakistani flagships to operate between the two countries. Lack of competition leads to high freight costs.

Finally, it is possible to measure the extent of efficiency in terms of transaction cost incurred per container-kilometre between the direct and indirect official sea and land routes. The Mumbai-Dubai-Karachi is 2.6 times more efficient than the direct Mumbai-Karachi route while the indirect Delhi-Mumbai-Karachi route is 1.9 times more efficient than the direct Delhi-Attari road/rail route.

Table 2: Route-wise Transaction Cost (TC) Per Container (US $)

		Transport Cost (Tpt) US $			Bribes US $			
		Rail/road	Sea	Total Tpt Cost	Bribes for Clearances	Other Bribes	Total Bribes	Total TC
	(1)	(2)	(3)	(4)=(2)+(3)	(5)	(6)	(7)=(5)+(6)	(8)
Delhi-Attari	Rail	325		325	21	45[1]	66	391
Delhi-Attari	Road - Rail	338		338	32	45[2]	77	415
Delhi-Mumbai-Karachi	Rail-Sea	460	550	1010	48		48	1058
Mumbai-Karachi	Sea		550	550	26		26	576
Mumbai- Dubai-Karachi	Sea		750-950	750-950	26		26	776-976
Mumbai-Karachi (with switch bill of lading)	Sea		550	550	26	200[3]	226	776

Note: Estimates for transport and other transaction costs have been obtained for a 20-feet sea container load that can transport 18 tons of soy meal. Costs for land transport have been obtained for the same quantity. Information was elicited from freight forwarders.

[1, 2] Other bribes include bribes paid for procuring rail wagons

[3] Other bribes includes bribes paid for obtaining a switch bill of lading.
Source: Survey (2005) January.

Table 3: Route-wise Comparison of Transaction Cost (TC) Per Container-Km

	Distance (Km)	Total Tpt cost US $ per container	**Transport Cost US $ / Container - Km**	Total TC cost US $ per container	**Transaction Cost US $ / Container - Km**	Bribes as % of Transaction Costs	**Ranking of Transport Costs US $ / Container -Km**	**Ranking of Transaction Costs US $ / Container -Km**
Land	(1)	(2)	**(3)**	(4)	**(5)**	(6)	**(7)**	**(8)**
Delhi-Attari (rail)	478	325	**0.68**	391	**0.82**	17.1	**5**	**4**
Delhi-Attari (road/rail)	479	338	**0.71**	415	**0.87**	18.4	**6**	**5**
Delhi-Mumbai-Karachi (land cum sea)	2274	1010	**0.44**	1058	**0.47**	6.4	**2**	**2**
Sea								
Mumbai-Karachi	885	550	**0.62**	576	**0.65**	4.6	**3**	**3**
Mumbai- Dubai-Karachi	3127	750-950	**0.24-0.30**	776-976	**0.25-0.31**	3.2	**1**	**1**
Mumbai-Karachi (with switch bill of lading	885	550	**0.62**	776	**0.88**	29.5	**3**	**6**

Note: Estimates for transport and other transaction costs have been obtained for a 20-feet sea container load that can transport 18 tons of soy meal. Costs for land transport have been obtained for the same quantity. Information was elicited from freight forwarders.

Source: Survey (2005) January.

Transaction cost in terms of time taken in the transportation of goods on alternative routes are shown in Table 4. The actual transportation time on the Delhi-Attari route is 1 day whereas if goods move by sea between Mumbai and Karachi it takes 1.5 days and through Dubai it takes 6 days. However delays are caused on several counts. On the Delhi-Attari route, delays are caused due to time taken in obtaining clearances and time required for procurement of wagons. On the Mumbai-Karachi sea route delays are caused due to time taken in getting clearances, ship waiting time and cargo dwell time. On the Delhi Mumbai road route, delays are caused due to frequent breakdowns of vehicles and because loaded trucks move only for limited number of hours in a day. Even though actual transportation time on alternative land and sea routes varies between 1 and 6 days, total time taken due to delays on various counts varies between 8.5 and 16 days. (See Table 4).

Table 4: Transaction Cost on alternative Routes: Time Taken

Route	Mode	Transportation time (days)	Delay(days)	Total time (days)
Delhi-Attari	Rail	1	12	13
Delhi-Attari	Road-Rail	1	12	13
Mumbai-Karachi	Sea	1.5	7	8.5
Mumbai- Dubai-Karachi	Sea	6	7	13
Delhi-Mumbai-Karachi	Rail-Sea	4	8	12
Delhi-Mumbai-Karachi	Road -Sea	6	10	16

Source: Survey (2005) January.

IV.5. Informal Trade

While the survey also aimed at eliciting information on the value and nature of goods being traded informally, no specific information on this aspect could be obtained through the survey. However, all traders agreed that informal trade was substantial, particularly through third countries such as Dubai. Traders when asked about what products were traded informally answered that almost every exportable item was being exported to Pakistan through third countries. The survey revealed that cross-border informal trade takes place through passengers traveling by train and by bus, though informal trade is much larger on the train route. Such trade is visible and can be estimated through a survey. The goods train through the Attari/Wagah border is also used to transport goods (through mis-invoicing and bribes to official authorities) that are not on the permissible list. The survey revealed that before 1999, informal trade was more visible along the Indo-Pak border, particularly along the Khokrapar-Munabao route. An item known to be traded the most was live animals, mainly goat and cattle. Informal trade also takes place along the Indo-Pak border, but the degree of risk in trading is much higher than on the Indo-Nepal and Indo-Bangladesh land borders. Also, in such cases, payments are almost always linked to drugs and narcotics.

IV.6 Summary

Analyzing the trading environment of firms engaged in trading between India and Pakistan through a survey conducted in Delhi, Amritsar and Mumbai, the study finds that several new firms are entering into trading with Pakistan. Evidence of anonymous trading indicates that such trading needs to be facilitated through better information exchange on commodities and quantities to be traded. Establishing web portals towards this end would perhaps be the easiest in terms of implementation. Banking problems related to confirmation of L/Cs and to payments need to be addressed through greater transparency. There is a need for Pakistan to put a more rigorous system in place to apply SPS and TBT standards to Indian exports. Visa restrictions should be eased by eliminating city specific visas prior to entry and police reporting on arrival. Uninterrupted telecommunication links between the two countries would facilitate trade between the two countries.

Transportation links between the two countries are weak with only two operational routes namely the Mumbai-Karachi sea route and Attari/Wagah land border. High transaction costs on these routes make the indirect routes viz., Mumbai-Dubai-Karachi sea route and the Delhi-Mumbai-Karachi land-cum-sea route more efficient than the direct Mumbai-Karachi and Delhi-Attari routes. Perhaps the first step towards reducing transaction costs would be to move towards a negative list approach so that goods can move freely on the direct routes. Also, the shipping protocol needs to be amended so that third country and non-national flagships can ply on the Mumbai-Dubai sea route. This would help in lowering shipping costs. Transaction costs can be lowered by removing bottlenecks on the Mumbai-Karachi sea route and the Attari/Wagah land border. The rail protocol should be amended so that restrictions on wagon balancing are removed and wagon availability is improved. Measures such as simplifying border procedures and introduction of EDI facilities at the land borders would also reduce transaction cots of trading both in terms of time and money. Opening the Attari/Wagah border to allow transportation of goods by road should be done at the earliest as the road link for movement of passengers is already operational. New rail and road links e.g. the Khokrapar-Munabao link and the Srinigar-Muzaffarabad link (for goods transportation) would reduce transaction costs of trading.

V. India's Regional Engagement in FTAs

This section examines the reasons for the recent momentum gained by SAFTA even though the economic case for SAFTA is weak. SAFTA and Indo-Pak trading is examined in the context of India's regional dialogue.

Very few quantitative studies (using the using the gravity model, the CGE model and partial equilibrium studies) exist on the evaluation of SAFTA. (Srininvasan and Canonero ;1993, Pigato et. al.; 1997 and Bandara and Yu; 2003. Govindan; 1994 and DeRosa and Govindan; 1995). Most of the studies point out that unilateral trade

liberalization would yield more gains for the region compared to preferential trade liberalization.

Baysan et. al. (2004) argue that the case for SAFTA is weak on qualitative grounds as well. Bhattacharya (2001), Mukherjee (2002), Mukherjee(2004) point out that the progress of tariff concessions under the four Rounds of SAPTA negotiations was very slow both in terms of number of tariff lines and import values. Bayson et al. point out that trade diversion under SAFTA is more likely because the levels of protection are high and the probability of the region to have the most efficient suppliers is slim. The tendency for the countries to exclude sectors from tariff preferences in an FTA that cannot withstand competition from the regional partners and the tendency to have stringent rules of origin in items in which competition is feared, makes the case for SAFTA weak.

Yet, SAFTA gathered a sudden momentum in 2004. The push for SAFTA came because of four key reasons. First, in a drive to participate in the expanding global trade market, countries in South Asia have made a serious commitment to MFN liberalization. Second, the proliferation of FTAs since 2004, such as the European Union's move towards bilateral market access FTAs and Economic Partnership Agreements with the African, Carribean and Pacific States; the shift in the US position towards bilateral preferential Agreements; and the efforts of some developing countries to open markets through FTAs place South Asia at a distinct advantage. Third, developments within the Asia-Pacific region such as the likely expansion of ASEAN to include Korea, Japan and China, and the signing of the Framework Agreement between India and ASEAN has led to a flurry of interest amongst the South Asian Members to hasten the pace of liberalization. Fourth, the enhanced trade between India and Sri Lanka is increasingly being perceived by the South Asian Members as a result of the FTA between them.

It needs to be recognized that SAFTA is embedded in prior and existing regional Agreements that India has been engaged in. Developments under SAFTA are examined vis-à-vis the Indo-ASEAN and the BIMSTEC (Economic Co-operation Agreement between Bangladesh, India, Myanmar, Sri Lanka, and Thailand) Agreement. Implications of these FTAs for SAFTA and for Indo-Pak trade can be drawn by comparing and analyzing the FTAs in terms of (i) their country grouping patterns (ii) evolution patterns (iii) scope and coverage of FTAs.

India's earliest bilateral trade Agreements with Nepal in 1951 and with Bhutan in 1972 have been renewed from time to time and are still operational. However, neither of them has been notified to the WTO. Subsequently, the Bangkok Agreement was signed in 1975. Seven countries namely, Bangladesh, India, Lao PDR, Republic of Korea, Sri Lanka, the Philippines and Thailand met at Bangkok and agreed to a list of products for mutual tariff reduction. However, this agreement was not ratified by Thailand and the Philippines due to their ASEAN commitments, which was also coming into force at that time. Lao PDR is not an effective participating member since it has not issued Customs Notification on the tariff concessions granted to other

participating States. Papua New Guinea acceded to the Agreement in December 1993, but has not yet ratified it. Thus, this agreement remained operational between four countries namely, Bangladesh, India, Republic of Korea and Sri Lanka. However, as this Agreement is preferential in nature (rather than a free trade Agreement), only limited tariff liberalization has been achieved in the three Rounds of negotiations held so far.

The South Asian Preferential Trade Arrangement was signed in 1993, with the ultimate objective of achieving a South Asian Free Trade Agreement (SAFTA). As mentioned earlier, until 2003, liberalization under the SAPTA Rounds remained limited owing to limited product coverage and tariff preferences.

Thereafter, India entered into several Free Trade Agreements. India signed a Free Trade Agreement with Sri Lanka in 1998, which became operational in 2000. India also made an attempt to strengthen its historical ties with ASEAN and entered into three Framework Agreements with Thailand, Singapore and the ASEAN region in 2003. The Indo-ASEAN Agreement lays out a total time frame of 10 years for completion of the tariff reduction/elimination programme. The time lines for tariff elimination under the Indo-ASEAN Agreement distinguish a normal track as well as a sensitive track. The normal track lays down a 5 year framework (2006-2011) for India and ASEAN-6 except Philippines; a 10 year framework (2006-2016) for India and Philippines; and a 5 year framework for India towards the ASEAN LDCs, whereas the LDCs will have a 10 year framework to achieve tariff elimination. As the initial commencement date for the Agreement viz., January 2006 could not be met, the new time frame for FTA in Goods is to commence from 1st January 2007. In addition to an FTA in goods, the Framework Agreement includes FTA in services, and investment also. The Indo-ASEAN Framework Agreement and the Indo-Thailand Framework Agreements also envisaged an Early Harvest Programme (EHP) under which tariffs on a selected number of items were to be eliminated on a fast track basis. Such concessions were granted by September 2004 in the case of the Indo-Thailand Agreement but in the case of the Indo-ASEAN Agreement the EHP has been deferred since the Member countries are still in the process of finalizing the rules of origin.

BIMSTEC widened its scope in 1998 to strive towards developing a Free Trade Area. In 2003, a Group of Experts (GOE) was constituted to draft the Framework Agreement on BIMSTEC FTA. The Framework Agreement was signed in February 2004. Two new Members, Nepal and Bhutan who joined as new Members only a day before the signing of the Agreement signed the Framework Agreement. Bangladesh had participated in the GOE all along for the drafting of the Framework Agreement, but did not sign it. It later expressed its interest in signing of the Agreement and acceded by

signing a Protocol to this effect in June 2004. The Framework Agreement envisages the Agreement to become operational from July 2006.[68]

The SAFTA finally signed in January 2004, came into force by January 2006. The preferential tariffs will become fully operational form July 2006. The tariff liberalization programme is scheduled to be undertaken in two phases. In the first phase, in two years the Non-Least Developed Country (Non-LDC) Members of SAARC consisting of India, Sri Lanka and Pakistan) have to bring down their tariffs to 20% while the Least Developed Country (LDC) Members of SAARC (Bangladesh, Bhutan, Maldives and Nepal) have to bring down their tariffs to 30%. In the second phase beginning from the third year of the date of commencement reduction of tariffs to 0 to 5% will be done in 5 years for the non-LDCs (6 years in the case of Sri Lanka) and in 8 years for the LDCs.

BIMSTEC is visualized as a 'bridging link' between two major regional groupings i.e. ASEAN and SAARC. It is important to point out that with the inclusion of Nepal and Bhutan as Members of BIMSTEC, Pakistan is the only large SAARC Member (the only other country being Maldives) that is not part of the BIMSTEC grouping.

Developments under SAFTA need to be examined vis-à-vis those under Indo-ASEAN and BIMSTEC. All three Agreements make a distinction between Least Developed Contracting States (LDCS) and non-LDCS and envisage different time frames for tariff reduction for them. A notable feature of SAFTA is that the time frame for phasing out/reduction of tariffs is the least for India and Pakistan (7 years). This implies that trade relations between India and Pakistan would determine the pace of SAFTA. Another key difference relates to the scope and coverage of the FTAs. While BIMSTEC and ASEAN include services under their liberalization programme, SAFTA does not. Trade in services, holds immense potential for the countries in the region, hence, its exclusion under SAFTA would be a disadvantage to Members.

It is possible to infer that SAFTA would ultimately lead to integration with the larger Asian community through BIMSTEC and ASEAN and further with China, Korea and Japan through ASEAN. The trade relations between India and Pakistan in turn would to a great extent determine the success of SAFTA. It is in the interest of both countries to make efforts to first normalize trade relations (through MFN status) and then to adopt measures to enhance trade. It is not surprising therefore that the two countries have set up a Joint Study Group to examine trade possibilities and address issues related to trade facilitation and non-tariff barriers.

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[68] While the FTAs analyzed are relevant in the context of SAFTA, India is in the process of signing preferential/free trade Agreements with MERCUSOR, SACU, Mauritius, GCC, China and Egypt. Countries other than India in the South Asian region are also pursuing the FTA route. Bangladesh is evolving FTAs with Pakistan and with Sri Lanka. Also, Sri Lanka and Pakistan signed a Free Trade Agreement recently in February 2005.

VI. Indo-Nepal and Indo-Sri Lanka Free Trade Agreements: Lessons for India

While an analysis of India's current engagement in SAFTA, BIMSTEC and ASEAN helps in placing Indo-Pakistan trade in a regional context, it is important to analyse some of the key features of India's trading agreements that have already been operational. The Indo-Nepal FTA and the Indo-Sri Lanka FTA have been selected as one (the former) provides an example of a not so successful FTA while the other (latter) provides an example of a successful FTA. An examination of these two FTAs would help in drawing lessons for Indo-Pak trade.

VI. 1 Indo-Nepal FTA: Key Issues

The Indo-Nepal economic relations are governed by the bilateral treaties of Trade and Transit and Agreement for Co-operation to Control Unauthorised Trade. The Treaty of Trade in 1960 was the first that established bilateral free trade agreement between India and Nepal. They were subsequently modified in and renewed in 1971, 1978, 1996, and in 2002.

An important element of the trade treaties is the specification of rules of origin requirement so that trade from third countries can be prevented. As tariff levels in Nepal have always been lower than those prevailing in India, there has been a concern about the possibility of trade from Nepal to India in third country goods. The 1960 trade treaty required a Rule of Origin (ROO) condition of 90% value addition to material contents originating from India and/or Nepal. In the subsequent treaties, substantial relaxation was made on such ROO condition. The treaty in 1996 was perhaps a landmark in Indo-Nepal trade ties, as it marked the most liberal bilateral trade regime in the South Asian region. Under the Treaty India provided duty free market access to all goods manufactured in Nepal provided they were accompanied by a certificate of origin (COO). The Treaty for the first time eliminated the percentage rules of origin requirements provided the goods were accompanied by a certificate of origin issued by authorized agencies in Nepal. Subsequently total trade increased substantially from US $ 207 million in 1996 to US $ 617 million in 2002.[69] (See Table 21: India Reporting Country). The 1996 treaty was designed to boost Indo-Nepal trade. Several Indian companies such as Dabur, Hindustan Lever and Colgate Palmolive exported their products to India, which suggests that the treaty helped in building the export supply capabilities and strengthening the trade investment relationships between the two countries. However, such trade and investment links were accompanied by a surge in inflow of third country goods such as vanaspati ghee (edible oil), acrylic yarn, zinc oxide and copper twine into the Indian market.[70] Subsequently, at the time of renewal of the Treaty in 2002, articles involving a manufacturing process in Nepal could qualify for preferential access to the Indian market provided the process led to a change in classification at the four digit level, of the

[69] Direction of Trade Statistics, IMF.

[70] South Asia Development and Co-operation Report (2004) and Manchanda (2001)

Harmonised Commodities Description and Coding System. In addition such items were required to have a value-added of at least 25% was introduced.[71] Also, the above mentioned four items, which were perceived as being imported from third countries, were subject to a physical quota beyond which the MFN tariff would be applicable. With the revised Treaty in 2002, bilateral trade increased further to US$ 1040 million in 2004 but the trade balance turned in India's favour.

An issue that has always been of concern to bilateral trading partners is the trade deficit between them. At the time of renewal of the Treaty in 2002, each country expressed a concern over the large trade deficit with the other. Statistically speaking, one country's trade deficit should equal the partner country's trade surplus. The national trade statistics of both countries showed a trade deficit with each other during 1998-99 to 2001-02. A closer look at the direction of trade data published by the International Monetary Fund shows that during these years India had a trade deficit with Nepal and not the other way round. (See Table A. 20 and Table A.21)

What needs to be pointed out is that all the Trade Treaties between India and Nepal have been concerned about unauthorized trade in third country goods, with clear reference to flow of goods informally from Nepal to India. It is not widely known that informal trade from India to Nepal in locally produced goods is of equal magnitude and cannot be ignored in bilateral talks. In 2000-2001 informal imports from Nepal to India were US $228 million while informal exports from India to Nepal were US $ 180 million. In the same year official exports to Nepal was US $ 141 million and imports were to the tune of US $ 255 million. Interestingly, while informal imports from Nepal into India comprised of third country goods, informal exports from India to Nepal comprised of locally produced goods.[72]

VI.2 Indo-Sri Lanka FTA: Key Issues

The Indo-Sri Lanka Free Trade Agreement (ISLFTA) was signed in December 1998 but it came into operation only in March 2000. The long and detailed exchange of preferential tariffs was the chief reason for this delay.[73] Under the FTA India agreed to offer zero duty on 1351 products while Sri Lanka reciprocated by offering zero duty on 319 products. A key feature of the agreement was the large negative lists submitted by both countries. India submitted a negative list of 429 items while Sri Lanka's negative list constituted 1180 items. On the balance items, India agreed to phase out tariffs to zero duty over a three year period while Sri Lanka offered duty free access to Indian goods over a eight year period. India also imposed a tariff quota on garments (8 million pieces) and tea (15 million kg) and also specified ports of entry for these items to qualify for preferential tariffs. Under the FTA, products having a domestic value addition of 35%

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71 The value-added requirement of 25% was applicable from March 2002 to March 2003 for a period of one year. For the subsequent years there has been a value-added norm of 30%. (See text of Indo-Nepal Treaty, 2002)

72 Taneja (2004b)

73 Weerakoon (2001)

qualify for preferential market access. Those Sri Lankan items having a minimum 10% content of inputs originating from India qualify for preferential treatment under a reduced value addition of 25%. In addition a transformation at the four-digit level, of the Harmonised Commodity Description and Coding System is required for a product to qualify for preferential treatment.

At the time when the ISLFTA came into effect, doubts were expressed about the success of the FTA. (Sarvananthan: 2001, Weerakoon:2001, Baysan *et.al.* :2004). Weerakoon pointed out that at the time concessions were finalised, of the 319 items offered by Sri Lanka to India at zero duty, only three items were imported from India into Sri Lanka. By contrast, of the 1351 items in the zero –tariff list of India, Sri Lanka exported only 68 items to India. Of the 2907 products exported by India to Sri Lanka only 21% received some tariff preference. Of the 380 items exported by Sri Lanka to India, 50 were on the Indian negative list, 44 received a 25% tariff preference, 218 received a 90 % preference and 68 received a 100 per cent preference. Bayson *et al* point out that of the top 20 exports of Sri Lanka to the world at the 6 digit HS level, India subjected 15 out of these 20 to either a tariff-rate quota or negative list exception. Similarly of the top 20 export items from India to Sri Lanka, seven are subject to the negative list exception and four are subject to zero MFN tariff so preference is meaningless.

While at the time of exchange of concessions it appeared as though the FTA may not yield the desired results, two broad indicators that point to the success of the FTA are increased bilateral trade and an improvement in balance of trade in Sri Lanka's favour. Total trade between the two countries increased from US $ 560.1 in 2000 to US $ 1667.0 in 2004. (See Table A.23: India Reporting Country). Also during this period the balance of trade improved in Sri Lanka's favour.

Bayson *et. al* point out that much of the expansion in trade following the FTA was because of an increase in the share of products that were not traded at all prior to the FTA. They argue that the political economy pressures against preferences generally operate against the existing import from the partner country. Goods that the partner country does not supply at the time of negotiations do not pose an obvious threat and therefore manage to receive significant preferences. It is in these products that the scope for trade expansion is quite large. It is not clear however, whether this trade expansion represents trade creation or trade diversion.

Nevertheless, Member countries of the South Asian region perceive the Indo-Sri Lanka FTA as a success due to the apparent trade expansion that followed after the FTA. Also, the smaller countries in the region, consider it very important (though wrongly so) to improve their trade balance with India.

The perceived success of the ISLFTA in the first two years of its operation prompted the two countries to broaden and deepen the existing FTA. A Joint Study Group with representatives from both sides was set up for this purpose. The main objectives of the JSG included, *inter alia*, assessing the progress of the existing FTA with

a view to strengthening it, and suggesting a policy framework that would include trade facilitation, mutual recognition, services, investment and other areas of economic co-operation. The JSG submitted its report in 2003 paving the way for negotiations on a Comprehensive Economic Partnership Agreement.

Several key issues were identified in assessing the ISLFTA. The JSG also noted that several items of export interest to either country was on the other's negative list and that further preferences needed to be given to Sri Lanka, given the asymmetry in the economies of the two countries. It was pointed out that Sri Lanka's utilization of quotas for tea and ready-made garments remained below 5% of quotas available. As observed in several FTAs the implementation of the rules of origin also posed some problems. As long as there is a difference in the MFN tariff and the preferential tariff rate there is an incentive to trade in third country goods. Indian authorities expressed a concern over imports of copper related product imports on the grounds that such items did not meet the value added norms.[74] Some consignments from Sri Lanka were subject to unanticipated delays at the Indian customs as the authenticity of the certificate of origin (COO) was questioned. The JSG pointed out that rigidities of the present ROO particularly the requirement of 4 digit HS conversion were inhibiting potential exports from Sri Lanka despite high value addition. [75]

Several of the issues raised have already been addressed. For instance, entry points for tea and garments have been increased from four to seven. India also gave a commitment that it would enhance the existing quotas if they approach full utilization. The issue of surge in copper exports from Sri Lanka, was resolved through the consultative mechanism, which has proved to be the most important facilitator of the ISLFTA. The JSG recommended phasing out of negative lists to their lowest conceivable levels, giving due consideration to the fact there are asymmetries in the economies of the two countries. To overcome the problems related to rigidities in the application of rules of origin, the JSG specified conditions under which the requirement of 4-digit conversion could be abolished.

VI.3 Lessons from Indo-Nepal and Indo Sri Lanka FTA

What lessons can be learnt from the Indo-Sri Lanka and Indo-Nepal FTA? The success of the former can be attributed to several factors. Firstly, there is a sincere political commitment to the FTA. Second, the institutional mechanism in place to implement the FTA is very effective. As a result, the problems faced in implementation are resolved in a manner that trade expansion has continued unhindered. Third, the expansion of the existing FTA is an indication that the Indo-Sri Lanka FTA is similar to

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[74] Copper scrap is imported into Sri Lanka from Indonesia, Russia, and other suppliers, and then melted to produce ingots, rods etc. for export to India. In 2003 there were at least 30 companies engaged in the melting process, most of them are Indian entrepreneurs. (see Kelegama, 2003). A similar phenomenon is being observed in the case of Vanaspati (edible oil). (See Dubey 2004)

[75] South Asia Development and Co-operation Report (2004) and Joint Study Group Report on India Sri Lanka Comprehensive Economic Partnership Agreement (2003)

the 'New Age FTAs' which encompass a much broader and deeper integration. In the context of SAFTA it implies that the Indo-Sri Lanka FTA is likely to move much faster than SAFTA. Regarding the Indo-Nepal FTA, policy makers in India are of the view that since it is not notified to the WTO, it has had a weaker institutional mechanism to sort out implementation issues.

VII. Summary and Suggestions for Enhancing Indo-Pak Trade

This section presents a summary of the study and then spells out the policy steps that the two Governments can take to enhance Indo-Pakistan trading.

VII.I Summary

Trade between India and Pakistan, currently at around US $ 320 million, is very small compared to trade between India and its other large partners in South Asia. There is a vast untapped trade potential between the two countries. Viewed in a larger regional context, South Asia is the least integrated region compared to other regions namely East Asia, Europe and Central Asia, Latin America, Middle East and North Africa, and Sub-Sahara Africa. As several regions are making efforts to integrate further through FTAs, it is imperative for the South Asian countries to make a concerted effort to enhance the pace of their liberalization efforts. Regional integration efforts in the Asian region indicate that SAFTA would ultimately lead to integration with the larger Asian community through BIMSTEC and ASEAN. The success of SAFTA in turn would depend on trade relations between India and Pakistan. It is therefore in the interest of the two countries to take necessary steps to enhance trade.

Based on existing studies by academia and the private sector, the study identifies areas of trade interest, areas of possible joint ventures and other forms of co-operation between the two countries. A primary survey was conducted in Delhi, Amritsar and Mumbai to understand the trading characteristics of firms and to identify non-tariff barriers related to visas, trade logistics and the conventional non-tariff barriers that arise in the implementation of measures such as Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS) Measures. The size of the sample is small hence the results from the survey are only indicative.

Estimates from a gravity model indicate that bilateral trade between India and Pakistan can increase by US $ 6.6 billion compared to existing levels. However, the use of gravity models to predict trade flows in South Asia is questionable because, even though, the countries in the region are geographically contiguous, transportation and other transaction costs of trading in the region are very high. Another indicator of the untapped potential is the existence of informal trade believed to range between US$ 250 million and US $ 2 billion.

A key factor responsible for constraining growth in trade is the positive list approach followed by Pakistan to allow Indian imports. The positive list approach in its present form inhibits trade, lacks transparency and leads to high transaction costs.

Revealed Comparative Advantage Indices indicate that at the 3-digit SITC classification India has a comparative advantage in 49 items while Pakistan has a comparative advantage in 25 items. Such indices, do not give much indication on trade possibilities, unless they figure prominently in the importing country. Intra-industry trade indices also have limited applicability in the case of Indo-Pakistan trade, since such indices are based on existing trade that occurs in a limited number of items on account of a positive list approach followed by Pakistan. Another shortcoming of studies that use the revealed comparative indices and intra-industry trade indices is that they do not include services.

In recent years, the private sector has played an active role in identifying areas of trade interest, areas of possible joint ventures and other forms of co-operation between the two countries. The Chamber of Commerce in India such as the CII, FICCI, ASSOCHAM and PHDCCI have played an important role in dissemination of information related to quantities and commodities to be traded, trading environment and the policy regimes in the two countries. However, a more systematic approach to identifying areas of trade and investment possibilities remains to be done.

Main sectors identified for trade (export and import) possibilities between the two countries are textiles, agriculture, engineering, chemicals, electronics and metals and minerals. Sectors in which export possibilities for India exist are pharmaceuticals, rubber and plastic. In addition, there is a large scope in trade in several service sectors such as health, entertainment services, information technology, energy and tourism. Investment possibilities in Pakistan exist in sectors such as fish processing, chemicals and pharmaceuticals, automobile components and information technology.

At the micro-level, not much is known about the trading environment of firms engaged in trading between India and Pakistan. It is commonly believed that Indo-Pakistan trading takes place through ethnic links between trading partners. Such non-anonymous transacting facilitates trade, minimizes risk and also serves as an important channel of information flows. Typically such firms would have been involved in Indo-Pak trading for a long time. Our survey however, revealed that 35% of the firms had been trading for less than five years. Also, 35% of the firms in the sample located their trading partners through the internet. Entry of new firms into trading with Pakistan indicates anonymous entry into trading which is facilitated by modern modes such as the internet. This emerging trend indicates a significant change in firm behaviour.

The survey also focussed on eliciting information on barriers related to banking, meeting standards, visas and trade facilitation. Expectedly, some firms mentioned that they faced problems related to acceptance and confirmation of L/Cs. Some firms reported that they were trading through a bank contract which did not offer any

guarantee, but there was no default in payment. Interestingly, 50% of the firms reported that payments were settled through the Asian Clearing Union.

Barriers are often encountered in the application of measures related to standards necessary to protect human, animal or plant life or health, to protect environment and to ensure quality of goods. Contrary to expectations, the survey revealed that the exporting firms did not face any problems. Interestingly, this was so because the application of standards to Indian goods was not very rigid. Pakistani importers accepted the certifications that Indian companies used for other countries. The survey did not shed much light on barriers faced by Indian importers except those emanating from security considerations.

Traders are woeful about restrictions on visas. Visas for specific cities prior to entry, exit from the city of arrival only and police reporting on arrival were reported to be major irritants. Communication links between the two countries often break down when there are problems at the Indo-Pak border.

Transportation links between the two countries are weak. The sea route between Mumbai and Karachi has been the only consistent operational link and the only operational land route is the rail link across the Attari/Wagah border. The survey revealed that problems related to delays and clearances on the Mumbai-Karachi sea-route were the same as on any other sea-route. Major problems on the land route are related to availability of rail wagons, restrictions on wagon balancing and lack of EDI facilities.

Five factors account for high transaction costs of trading- limited transportation routes, restriction on the number of items permitted into Pakistan from India, the shipping protocol between the two countries, non-availability of rail wagons and procedural clearances. A combination of one or more of these factors account for transaction costs on alternative routes. Items not on the permissible list are traded through third countries such as Dubai, Afghanistan and Singapore. Since the Attari/Wagah border is choked, the route is not accessible to traders in Delhi and they are therefore forced to send their goods from Delhi to Karachi via Mumbai. Sometimes, traders transport their goods from Mumbai to Karachi, but obtain a '*switch bill of lading'* (illegally, at a cost), which shows the origin of the goods as being from a third country.

Bribes as a proportion of total transaction cost are the highest on the Mumbai-Karachi route using a switch bill of lading accounting for 30% of total transaction cost. This is expected since it is an illegal route and not officially available to traders. Bribes on the direct land routes account for 17% to 18% of total transaction cost while on the Mumbai-Karachi and Mumbai-Dubai-Karachi sea routes bribes are much lower ranging between 3% to 5%.

The survey reveals that the indirect Mumbai-Dubai-Karachi and the Delhi-Mumbai-Karachi routes are the most efficient routes in terms of transaction cost incurred per container-kilometre. While the former is opted for instead of the direct Mumbai-Karachi sea route the latter is used as an alternative to the congested land route at the

Attari/Wagah border. The Mumbai-Dubai-Karachi route is 2.6 times more efficient than the direct Mumbai-Karachi route while the indirect Delhi-Mumbai-Karachi route is 1.9 times more efficient than the direct Delhi-Attari road/rail route.

Transaction costs are also incurred in terms of time lost. Even though actual transportation time varies between 1 and 6 days on alternative land and sea routes, total time taken due to delays on various counts varies between 8.5 and 16 days.

The study has some limitations. First, information on import possibilities from Pakistan through secondary and primary sources is inadequate. Second, information on investment possibilities is also inadequate, possibly because there are no operational joint ventures. Third, the survey sample is small hence the results from the survey are only indicative.

VII. 2 Policy Suggestions to Enhance Indo-Pak Trade:

The study provides useful insights for policy makers. The sequencing of policy implementation should be such that as a first step trade relations between the two countries should be normalised by trading on MFN basis. As a second step, policymakers should address problems related to information exchange, trade facilitation, banking, non-tariff barriers, visas and communication. As a third step an enabling environment for investment has to be created so that India and Pakistan can enter into joint ventures. The key policy suggestions are outlined as follows:

Trade on MFN Basis

- As a first step, and perhaps the most important one, India and Pakistan need to normalise trade with each other on an MFN basis. It is essential to move from a positive list approach to a negative list approach. It is important for the two countries to have a common Harmonized System of codes, and greater transparency.

Information Exchange

- As new firms enter into Indo-Pak trading, trade needs to be facilitated through better information exchange on commodities and quantities to be traded. Establishing web portals towards this end would perhaps be the easiest in terms of implementation.

- Information on each other's policy environments should be disseminated to traders. Such information should be made available on Government websites. Improving information flows between the two countries will reduce the search costs for trading.

Transport Routes

- As there are only two operational routes, Mumbai-Karachi sea route and the Attari/Wagah rail link on the land border, new routes should be opened up.

Opening the Attari/Wagah border to allow transportation of goods by road should be done at the earliest as the road link for movement of passengers is already operational.

- New rail and road links e.g. the Khokrapar-Munabao link and the Srinigar-Muzaffarabad link (for goods transportation) should be opened.

Transport Bottlenecks

- Abandoning the positive list approach would allow goods to move freely on the direct routes thereby lowering transaction costs.

- The rail protocol should be amended such that restriction on wagon balancing is removed and wagon availability is improved.

- Measures such as simplifying border procedures and introduction of EDI facilities should be introduced at the land borders.

- The shipping protocol should be amended so that third country and non-national flagships can ply on the Mumbai-Dubai sea route. This would help in lowering shipping costs.

Banking

- As there is evidence of anonymous transacting between trading partners, payments through formal channels assume a greater role. Currently, the payments system is formalized through the Asian Clearing Union which is inefficient as payments are often delayed. The two countries need to have an institutional arrangement so that the state, private and foreign banks can participate freely in banking transactions.

- There needs to be greater transparency to address problems related to confirmation of L/Cs and to payments.

Non-tariff Barriers

- A more rigorous system on application of TBT and SPS Standards by Pakistan needs to be put in place. India would need to address barriers related to security considerations so that transaction costs of importing from Pakistan are lowered.

Visas

- Visa restrictions should be eased by eliminating city specific visas prior to entry and police reporting on arrival.

Communication

- Uninterrupted telecommunication links between the two countries would facilitate trade between the two countries.

Investment

- Currently there are no Indo-Pak joint ventures. As several Indian companies are showing an interest in having joint ventures in Pakistan, it is important to understand the nature of such investment and provide timely facilitation.

- Governments of India and Pakistan should set up an institutional mechanism that would guarantee each other's investments.

The two countries should work together to enhance and facilitate trade and investment. The suggested roadmap should serve as an important tool for policymakers of the two countries.

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Annex

Table A. 1: India-Pakistan Trade – 1996/97 – 2004/05

(US $ Million)

India Reporting Country						Pakistan Reporting Country				
Year	Xs to Pakistan (a)	Ms from Pakistan (b)	Total Trade (a)+(b)	Trade Balance (a)-(b)	X:M (a)/(b)	Ms from India (c)	Xs to India (d)	Total Trade (c)+(d)	Trade Balance (d)- (c)	M:X (c)/(d)
1996/97	157.2	36.1	193.4	121.1	4.4	197	36	233	-161	5.5
1997/98	143.2	44.5	187.6	98.7	3.2	153	89	242	-64	1.7
1998/99	106.1	214.5	320.6	-108.4	0.5	146	175	321	29	0.8
1999/00	93.0	68.2	161.2	24.7	1.4	127	54	181	-73	2.4
2000/01	186.8	64.0	250.9	122.8	2.9	235	55	290	-180	4.3
2001/02	144.0	64.8	208.8	79.3	2.2	187	49	236	-138	3.8
2002/03	206.2	44.9	251.0	161.3	4.6	167	71	237	-96	2.4
2003/04	286.9	57.7	344.6	229.3	5.0	382	94	476	-288	4.0
2004/05	509.3	92.7	602.0	416.5	5.5	548	288	836	-259	1.9

Sources: India Reporting Country from Monthly Statistics of Foreign Trade, DGCI and S , Calcutta.
Pakistan Reporting Country: State bank of Pakistan, Annual Report, various issues.

Table A. 2: India-Pakistan Trade – 1991-04

(US $ Million)

India Reporting Country						Pakistan Reporting Country				
Year	Xs to Pakistan (a)	Ms from Pakistan (b)	Total Trade (a)+(b)	Trade Balance (a)-(b)	X:M (a)/(b)	Ms from India (c)	Xs to India (d)	Total Trade (c)+(d)	Trade Balance (d)- (c)	M:X (c)/(d)
1991	40.2	57.6	97.8	-17.4	0.7	44.3	47.1	91.4	2.8	0.9
1992	52.0	145.8	197.8	-93.8	0.4	52.2	135.5	187.8	83.3	0.4
1993	57.8	46.8	104.6	11.0	1.2	67.1	53.1	120.1	-14.0	1.3
1994	59.4	47.2	106.5	12.2	1.3	72.2	45.9	118.2	-26.3	1.6
1995	70.4	37.4	107.8	33.0	1.9	80.6	38.8	119.4	-41.8	2.1
1996	140.9	38.6	179.5	102.4	3.7	211.5	41.4	253.0	-170.1	5.1
1997	146.7	42.4	189.1	104.4	3.5	141.6	33.1	174.7	-108.5	4.3
1998	115.4	171.9	287.3	-56.5	0.7	153.9	202.6	356.5	48.7	0.8
1999	96.2	104.8	201.0	-8.6	0.9	134.1	87.0	221.2	-47.1	1.5
2000	163.3	65.1	228.4	98.3	2.5	177.6	57.9	235.5	-119.8	3.1
2001	219.1	72.8	291.9	146.3	3.0	241.1	66.2	307.2	-174.9	3.6
2002	147.8	53.7	201.5	94.0	2.7	162.5	48.9	211.4	-113.7	3.3
2003	266.7	54.5	321.1	212.2	4.9	226.4	83.5	309.9	-142.9	2.7
2004	450.8	85.9	536.7	364.9	5.2	455.4	157.7	613.1	-297.7	2.9

Sources: Direction of Trade, IMF (2006)

Table A. 3: Number of Items Traded at HS- 8 Digit Level

Year	Number of Items Exported to Pakistan	Number of Items Imported from Pakistan
1997-98	574	87
1998-88	672	121
1999-00	628	112
2000-01	686	157
2001-02	712	193
2002-03	841	148
2003-04	895	183
2004-05	1412	451

Source: Monthly Statistic of Foreign Trade, DGCI and S, Calcutta

Table A. 4: Major Exports from India to Pakistan

HS-Sections	Description	HS Chapters	Export 2004-05 (US $ million)
I	Live Animals, Animal Products	01-05	1.22
II	Vegetable Products	06-14	**29.91**
III	Fats or Oils & Cleavage products; Prepared Edible Fats; Waxes	15	0.31
IV	Prepared Foodstuffs; Beverages, Spirits & Vinegar; Tobacco & Manuf. Substitutes	16-24	**44.27**
V	Mineral Products	25-27	**82.28**
VI	Products of Chemical & Allied Industries	28-38	**230.63**
VII	Plastics, Rubber & Articles Thereof	39-40	**66.39**
VIII	Raw Hides, Skins, Leather, Fur & Articles of Animal Gut (Excl. Silkworm), Travel Goods, Handbags & Similar Containers	41-43	0.06
IX	Wood, Cork, Wood Charcoal & Articles Thereof; Basketware & Wickerwork, Straw	44-46	0.05
X	Wood Pulp or other Cellulose Material, Wastes/Scrap of Paper or Paperboards	47-49	2.71
XI	Textiles & Textile Articles	50-63	15.91
XII	Footwear, Headgear, Umbrella, Walking Sticks, Prepared Feathers, Artificial Flowers	64-67	0.05
XIII	Articles of Stones, Plaster Cement, asbestos, Mica, ceramic Etc.; Glass & Glassware	68-70	1.32
XIV	Pearls; Precious Stones, Metals; Semi-Precious Stones, Imitation Jewellary	71	2.76
XV	Base metals & Articles of Base Metals	72-83	24.44
XVI	Machinery & Mechanical Appliances; Elec. Equip, Sound & Television Image recorders & Reproducers & Parts & Accessories Thereof	84-85	5.3
XVII	Vehicles, Aircraft, Vessels & Associates Transport Equipment	86-89	0.21
XVIII	Optical, Photographic, Cinematographic, Measuring, Checking Precision Medical or Surgical Equip, Clock Watches, Musical Instruments, Parts & Accessories Thereof	90-92	0.96
XIX	Arms Ammunitions, Parts & Accessories Thereof	93	0
XX	Miscellaneous Manufactured Articles	94-96	0.33
XXI	Works of Art, Collector Pieces & Antiques	97	0.11
XXII	Services	98-99	0.22
	Total		509.44

Source Monthly Statistics of Foreign Trade, DGCI & S, Calcutta

Table A. 5: Major Imports from India to Pakistan

HS-Sections	Description	HS Chapters	Import 2004-05 (US $ million)
I	Live Animals, Animal Products	01-05	0.06
II	Vegetable Products	06-14	**32.29**
III	Fats or Oils & Cleavage products; Prepared Edible Fats; Waxes	15	0
IV	Prepared Foodstuffs; Beverages, Spirits & Vinegar; Tobacco & Manuf. Substitutes	16-24	**33.7**
V	Mineral Products	25-27	**2.71**
VI	Products of Chemical & Allied Industries	28-38	1.47
VII	Plastics, Rubber & Articles Thereof	39-40	1.4
VIII	Raw Hides, Skins, Leather, Fur & Articles of Animal Gut (Excl. Silkworm), Travel Goods, Handbags & Similar Containers	41-43	1.05
IX	Wood, Cork, Wood Charcoal & Articles Thereof; Basketware & Wickerwork, Straw	44-46	0.01
X	Wood Pulp or other Cellulose Material, Wastes/Scrap of Paper or Paperboards	47-49	0.45
XI	Textiles & Textile Articles	50-63	**17.15**
XII	Footwear, Headgear, Umbrella, Walking Sticks, Prepared Feathers, Artificial Flowers	64-67	0
XIII	Articles of Stones, Plaster Cement, asbestos, Mica, ceramic Etc.; Glass & Glassware	68-70	0.06
XIV	Pearls; Precious Stones, Metals; Semi-Precious Stones, Imitation Jewellary	71	0.56
XV	Base metals & Articles of Base Metals	72-83	0.51
XVI	Machinery & Mechanical Appliances; Elec. Equip, Sound & Television Image recorders & Reproducers & Parts & Accessories Thereof	84-85	0.35
XVII	Vehicles, Aircraft, Vessels & Associates Transport Equipment	86-89	0
XVIII	Optical, Photographic, Cinematographic, Measuring, Checking Precision Medical or Surgical Equip, Clock Watches, Musical Instruments, Parts & Accessories Thereof	90-92	0.8
XIX	Arms Ammunitions, Parts & Accessories Thereof	93	0
XX	Miscellaneous Manufactured Articles	94-96	0.03
XXI	Works of Art, Collector Pieces & Antiques	97-99	0.01
XXII	Services		0.08
	Total		92.69

Source: Monthly Statistics of Foreign Trade, DGCI & S, Calcutta

Table A. 6: Number of Products on Which Tariff Concessions have been extended by SAARC Member States under SAPTA

Countries	First Round			Second Round			Third Round			Grand Total
	For LDCs	For All	Total	For LDCs	For All	Total	For LDCs	For All	Total	
Bangladesh	1	11	12	11	215	226	143	338	481	719
Bhutan	7	4	11	10	37	47	101	23	124	182
India	62	44	106	514	390	904	1874	43	1917	2927
Maldives	0	17	17	3	2	5	0	368	368	390
Nepal	4	10	14	67	166	233	137	52	189	436
Pakistan	15	20	35	131	227	358	271	24	295	688
Sri Lanka	11	20	31	23	72	95	54	28	82	208
Total	100	126	226	759	1109	1868	2580	876	3456	5550

Source: SAARC Secretariat. Cited from Mukherjee (2004)

Table A. 7: Depth of Tariff Concessions Agreed by the SAARC Member States under SAPTA (%)

Countries	First Round		Second Round		Third Round	
	For LDCs	For All	For LDCs	For All	For LDCs	For All
Bangladesh	10	10	10	10	10,15	10
Bhutan	10,13,15	15	15	10	10,18,20	10
India	50,100	10,25,30,50,90	25,30	10,15,25,40	50-100	10,20
Maldives	7.5	7.5	15	10	5,10	5,10
Nepal	10	10	15	10	10,15	10
Pakistan	15	10	15	10	30	20
Sri Lanka	10,15	10,20	10,50,60	10	10,30,50	10

Source: SAARC Secretariat. Cited from Mukherjee (2004)

Table A. 8: Potential Items for Export from India to Pakistan

	CII	FICCI	ASSOCHAM	PHDCCI
Engineering	Automobiles, auto components and spares, electrical equipment and machinery, machine tools, Textile machinery	Transport equipment Textile machinery	Agricultural machinery, food machinery, textile and leather machinery, processed food machinery, tractors, passenger and road motor vehicles, trailers	Railway track material and equipment, construction machinery, engines, agricultural machinery, pump boiler and parts, power generating and distribution equipment, oil prospecting equipment, chemical machinery, fishing equipment
Textiles	Short staple cotton Textile design,	Textiles,		Cotton yarn, silk fabric,
Rubber and Plastic		Tyres and plastic	Tyres and plastic materials	Tyres and tubes
Food and agriculture		Tea, coffee, and other agricultural items	Wheat, sugar, oil meals, tea**,**	Coffee, tea,
Metals and Minerals	Steel	Iron ore, steel	Coal, lignite and peat, copper, aluminium, iron, steel	Iron ore,
Chemicals	Chemicals	Chemicals, and dyes	Inorganic chemicals, dyes and intermediates, fertilizers	Organic and inorganic chemicals, dyes and dyestuffs,
Pharmaceuticals	**P**harmaceuticals	Pharmaceuticals		Pharmaceuticals
Electronics			Electro-medical equipment, television receivers, radio receivers, transistors, valves etc.,	Computers and drawing machines
Services	Health, Education, Entertainment, Advertising, Information Technology, Tourism	Information Technology, Energy		

CII: Confederation of Indian Industry
FICCI: Federation of Indian Chambers of Commerce and Industry
ASSOCHAM: Associated Chambers of Commerce
PHDCCI: Punjab Haryana and Delhi Chambers of Commerce and Industry

Table A. 9: Potential Items for Import from Pakistan to India

	CII	FICCI	ASSOCHAM	PHDCCI
Engineering			Civil engg. equipment, mechanical hand equipment, non-electrical machine parts	
Textiles	Long staple yarn and cotton fabric	Clothing accessories, readymade garments, knotted carpets	Raw wool, yarn, fabric and other textile products	Raw cotton, raw wool, cotton fabric, machine made carpets
Leather		Leather and leather goods	Hides/skins, leather, leather manufactures,	
Food and agriculture	Molasses, sugar,	Fresh and dry fruits and vegetables, sugar, molasses	Fruits, nuts, fresh and dried, sugar, spices, processed fruit, manufactured tobacco	Dry fruits
Metals and Minerals		Limestone, rock salt, marble	Stone, sand and gravel	
Precious and semi-precious stones		Precious and semi-precious stones		
Chemicals			Paints and misc. chemical products, perfumes	Naphtha
Electronics			Automatic data processing machines	
Other Manufactured goods		Surgical instruments	Toys, sports goods, surgical instruments.	

CII: Confederation of Indian Industry
FICCI: Federation of Indian Chambers of Commerce and Industry
ASSOCHAM: Associated Chambers of Commerce
PHDCCI: Punjab Haryana and Delhi Chambers of Commerce and Industry.

Table A. 10: India's Informal Trade with South Asia

	Exports (X)	Imports (M)	Trade Balance (X-M)	Total Trade (X+M)
Bangladesh[1]	299.0	14.0	285.0	313.0
Sri Lanka[2]	185.5	21.8	163.7	207.3
Pakistan[3,]	n.a.	n.a.	Positive	2000
Nepal[4]	180.0	228.0	-48.0	408.0
Bhutan[5]	31.3	1.2	30.1	32.6
Total South Asia	-	-	-	2960.9

Sources: As cited in Taneja (2004): Chaudhary (1995) for Bangladesh; Taneja *et. al.* (2002), Taneja *et. al*. (2004) for Sri Lanka and Nepal; Economist (1996) for Pakistan; Rao et. al. (1997) for Bhutan

Notes : X denotes exports while M denotes imports

[1](1992-93) [2](2000-01) [3](1996) [4](2000-01) [5](1993-94)

Table A. 11: Items Traded Informally between India and Pakistan

Items exported informally from India to Pakistan	Items imported informally from Pakistan to India
Textile machinery	Pulses
Tannery equipment	Edible oils
Cement	Spices
Cattle	Dry fruits
Beetle leaves and nuts	Plastic goods
Spices	Synthetic fibre
Tubes	Melamine dinner sets
Tyres	Textiles and clothing
Tea	Woolens
Medicines	Sugar
Videotapes	Edible oil
Alcoholic beverages	Vegetable ghee.
Chemical products	
Steel utensils	
Machine tools and equipment/spares	
Cotton fabrics	
Viscose fibre	
Confectioneries Cashew nuts	
Cosmetics	
Ayurvedic medicines	
Video tapes and cassettes.	

Sources: Mukherjee (2001), ASSOCHAM (2004), FICCI (2001), GOP (1996).

Table A. 12: Distribution of Trading Firms by Trading Activity

No. Of firms	Delhi	Mumbai	Amritsar	Total
Exporters	6	19	5	30
Importers	3	-	1	4
Exporters/importers	2	-	2	4
Total	11	19	8	38

Note: Total number of firms is 38 because there are four firms that are exporting and exporting
Source: Survey (2005) January

Table A. 13: Distribution of Firms by Product

	Percentage of Firms Exporting	Percentage of Firms Importing	Total
Food	9 (26)	7 (21)	16 (47)
Chemicals	4 (12)	0	4 (12)
Pharmaceuticals	10 (29)	0	10 (29)
Others	7 (21)	1 (3)	8 (24)
Total	30 (88)	8 (24)	38 (112)

Note: Firms were engaged in exporting and importing.
Source: Survey (2005) January

Table A. 14: Distribution of Firms by Size

Range	Percentage of Trading Firms
<Rs 10 million	12 (35)
Rs. 10 millionn -Rs. 100million	16 (47)
> Rs. 100 million	6 (18)
Total	34 (100)

Note: Figures in parantheses indicate percentages.
Source: Survey (2005) January

Table A. 15: Proportion of Trade with Pakistan

	Exports/imports with Pakistan as a proportion of total firm trade
	Number/(Percent) of firms
<10%	17 (500
10% to 20%	4 (12)
20% to 30%	5 (16)
> 30%	8 (24)
Total	34 (100)

Note: Figures in parantheses indicate percentages.
Source: Survey (2005) January

Table A. 16: Distribution of Firms by Age

	Number/ (Percentage) of Firms		
	< 5 years	> 5 years	Total
Mumbai	8 (24)	11 (32)	19 (56)
Delhi	3 (8)	6 (18)	9 (26)
Amritsar	1 (3)	5 (15)	6 (18)
Total	12 (35)	22 (65)	34 (100)

Note: Figures in parantheses indicate percentages
Source: Survey (2005) January
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Table A. 17: Entry into Trading

	Number /(Percentage) of Firms			
Mode of Entry	Mumbai	Delhi	Amritsar	Total
Friends and relatives	9 (26)	7 (21)	5 (15)	21 (62)
Chambers of Commerce	1 (3)	-	-	1 (3)
Government	-	-	-	-
Internet	9 (26)	2 (6)	1 (3)	12 (35)
Total	19 (56)	9 (26)	6 (18)	34 (100)

Notes: Totals may not add up due to rounding up.
: Figures in parantheses indicate percentages.
Source: Survey (2005) January

Table A. 18: Mode of Transportation

	Number/(Percentage) of Firms			
	Delhi	Mumbai	Amritsar	Total
Land	6 (18)	-	5 (15)	11 (33)
Air	-	3 (9)	-	3 (9)
Sea	-	18 (53)	-	18 (53)
Sea + land	3 (8)	-	1 (3)	4 (11)
Total	9 (26)	21 (62)	6 (18)	36 (106)

Notes: Some firms in Mumbai were transporting goods by both sea and air.
: Figures in parantheses indicate percentages.
Source: Survey (2005) January

Table A. 19: Links to Pakistan

Last India Station	State	Last Pakistan Station	Province	Gauge	Status	Remarks
Munabao	Rajasthan	Khokhrapar	Sindh	BG/MG	Alignment at border reportedly covered by sand drifts	Once a through MG line, Indian side is now BG
Attari	Punjab	Wagah	Punjab	BG	Operational	Only active cross border link with bi-weekly Samjhauta Express and occasional goods
Hindumalkote	Punjab	Qassamwala (Mandi Sadiqganj)	Punjab	BG	Spur from Mandi Sadiqganj in Pak closed	
Chananwala (Fazilka)	Punjab	Amruka	Punjab	BG	Condition of alignment unknown	Spur to Chananwala from Fazilka is unused
Hussainiwala	Punjab	Ganda Sindhwan (Kasur)	Punjab	BG	Spur from Kasur Jn in Pak is closed	Bridge over River Sutlej reportedly destroyed in war
Khem Karan	Punjab	Kasur Tabail (Kasur)	Punjab	BG	Spur from Kasur Jn in Pak is closed	
Dera Baba Nanak	Punjab	Jassar	Punjab	BG	Condition of Bridge over River Ravi is unknown	

Source: http://irfca.org/docs/international-links.html

Table A. 20: Nepal-India Trade – 1991-2004

(US$ million)

India Reporting Country						Nepal Reporting Country				
Fiscal Year	Xs to Nepal (a)	Ms from Nepal (b)	Total Trade (a)+(b)	Trade Balance (a)-(b)	X:M (a)/(b)	Ms from India (c)	Xs to India (d)	Total Trade (c)+(d)	Trade Balance (d)-(c)	M:X (c)/(d)
1990/91	48	45	93	3	1.1	171	36	207	-135	4.8
1991/92	78	29	107	49	2.7	264	34	298	-230	7.8
1992/93	68	22	90	46	3.1	256	33	289	-223	7.8
1993/94	98	29	127	69	3.4	347	49	396	-298	7.1
1994/95	120	37	157	83	3.2	389	62	451	-327	6.3
1995/96	160	49	209	111	3.3	434	65	499	-369	6.7
1996/97	157	64	221	93	2.5	438	92	530	-346	4.8
1997/98	170	95	265	75	1.8	404	130	534	-274	3.1
1998/99	122	145	267	-23	0.8	471	184	655	-287	2.6
1999/00	151	189	340	-38	0.8	581	321	902	-260	1.8
2000/01	141	255	396	-114	0.6	619	356	976	-263	1.7
2001/02	215	356	571	-141	0.6	741	366	1107	-375	2.0
2002/03	350	282	632	68	1.2	921	343	1264	-578	2.7
2003/04	669	286	955	383	2.3	1039	406*	1445	-633	2.6
2004/05	743	346	1089	397	2.2	1166	418**	1584	-748	2.8

Sources: Nepal Rashtria Bank (Nepal) and Monthly Statistics of Foreign Trade , DGCI and S (India)
Note: * Revised; ** Provisional

Table A. 21: Nepal-India Trade – 1991-2004 (US$ million)

India Reporting Country						Nepal Reporting Country				
Fiscal Year	Xs to Nepal (a)	Ms from Nepal (b)	Total Trade (a)+(b)	Trade Balance (a)-(b)	X:M (a)/(b)	Ms from India (c)	Xs to India (d)	Total Trade (c)+(d)	Trade Balance (d)-(c)	M:X (c)/(d)
1991	77.3	19.2	96.5	58.1	4.0	85.0	17.5	102.5	-67.5	4.9
1992	72.9	22.9	95.8	50.0	3.2	80.1	20.8	100.9	-59.3	3.8
1993	75.4	18.8	94.2	56.6	4.0	83.0	17.1	100.1	-65.9	4.9
1994	84.5	13.9	98.4	70.6	6.1	93.0	12.6	105.6	-80.4	7.4
1995	107.1	27.5	134.6	79.6	3.9	117.8	25.0	142.8	-92.8	4.7
1996	157.6	49.3	206.9	108.3	3.2	441.8	66.7	508.5	-375.1	6.6
1997	168.9	87.4	256.3	81.5	1.9	435.8	91.6	527.4	-344.2	4.8
1998	134.3	132.5	266.8	1.8	1.0	439.7	145.5	585.2	-294.2	3.0
1999	144	177.7	321.7	-33.7	0.8	158.4	161.5	319.9	3.1	1.0
2000	143.4	238.5	381.9	-95.1	0.6	157.7	216.8	374.5	59.1	0.7
2001	158.3	262.3	420.6	-104.0	0.6	173.5	239.3	412.8	65.8	0.7
2002	316.4	300.3	616.7	16.1	1.1	348.0	273.0	621.0	-75.0	1.3
2003	589.6	285.0	874.6	304.6	2.1	648.6	259.1	907.7	-389.5	2.5
2004	713.7	326.5	1040.2	387.2	2.2	785.1	296.8	1081.9	-488.3	2.6

Source: Direction of Trade Statistics, IMF, 2004.

Table A. 22: Sri Lanka-India Trade 1990-2004

(US$ million)

	India Reporting Country					Sri Lanka Reporting Country				
Year	X to Sri Lanka (a)	Ms from Sri Lanka (b)	Total Trade (a)+ (b)	Trade Balance (a)-(b)	X:M (a)/(b)	Ms from India (c)	Xs from to India (d)	Total Trade (c)+(d)	Trade Balance (d)- (c)	M:X (c)/(d)
1990/91	130.9	20.5	151.4	110.4	6.4	118.1	20.2	138.3	-97.9	5.8
1991/92	175.5	11.5	187.0	163.9	15.2	220.1	12.6	232.7	-207.5	17.5
1992/93	234.4	13.0	247.4	221.3	18.0	301.9	11.4	313.3	-290.4	26.4
1993/94	287.7	20.0	307.7	267.6	14.4	343.4	19.8	363.2	-323.6	17.4
1994/95	366.6	30.7	397.3	335.8	11.9	404.4	21.2	425.6	-383.2	19.1
1995/96	399.3	41.5	440.7	357.8	9.6	469.2	31.5	500.7	-437.7	14.9
1996/97	474.2	45.2	519.4	429.0	10.5	561.9	40.8	602.7	-521.1	13.8
1997/98	481.9	30.2	512.1	451.7	16.0	559.8	42.8	602.6	-517.0	13.1
1998/99	436.7	37.7	474.4	399.1	11.6	539.4	35.3	574.7	-504.1	15.3
1999/00	499.2	44.2	543.4	454.9	11.3	511.6	47.3	558.9	-464.4	10.8
2000/01	634.0	46.3	680.3	587.7	13.7	600.1	55.7	655.8	-544.5	10.8
2001/02	631.0	67.4	698.4	563.6	9.4	602.0	72.0	674.0	-530.0	8.4
2002/03	921.0	90.8	1011.8	830.2	10.1	835.0	171.0	1006.0	-664.0	4.9
2003/04	1319.2	194.7	1513.9	1124.5	6.8	1093.0	245.0	1338.0	-848.0	4.5
2004/05	1355.2	364.4	1719.6	990.8	3.7	1449.0	391.5	1840.5	-1057.5	3.7

Source: India Reporting Country: DGCI &S
Sri Lanka: Reporting Country: Sri Lanka Customs (data refers to calender years)

Table A. 23: Sri Lanka – India Trade (US$ million)

	India Reporting Country					Sri Lanka Reporting Country				
Year	Xs to Sri Lanka (a)	Ms from Sri Lanka (b)	Total Trade (a)+(b)	Trade Balance (a)-(b)	X:M (a)/(b)	Ms from India (c)	Xs to India (d)	Total Trade (c)+(d)	Trade Balance (d)- (c)	M:X (c)/(d)
1991	174.5	11.5	186.0	163.0	15.2	220.1	12.6	232.7	-207.5	17.4
1992	231.4	13.6	245.0	217.8	17.0	306.7	11.6	318.3	-295.1	26.4
1993	246.8	17.2	264.0	229.6	14.4	342.9	19.8	362.7	-323.1	17.4
1994	333.6	31.0	364.6	302.6	10.8	404.0	24.0	428.0	-380.0	16.8
1995	383.4	38.9	422.3	344.5	9.9	469.0	32.0	501.0	-437.0	14.7
1996	458.4	34.9	493.3	423.5	13.1	562.0	43.0	605.0	-519.0	13.1
1997	486.3	34.0	520.3	452.3	14.3	560.0	44.0	604.0	-516.0	12.7
1998	450.2	35.8	486.0	414.4	12.6	539.3	37.7	577.0	-501.6	14.3
1999	483.8	42.6	526.4	441.2	11.4	511.6	48.6	560.2	-463.0	10.5
2000	604.9	44.8	649.7	560.1	13.5	600.1	58.0	658.2	-542.1	10.3
2001	546.8	79.2	626.0	467.6	6.9	601.5	72.0	673.5	-529.5	8.4
2002	848.5	85.0	933.5	763.5	10.0	832.1	170.6	1002.7	-661.5	4.9
2003	1219.7	168.8	1388.5	1050.9	7.2	1076.2	245.1	1321.2	-831.1	4.4
2004	1345.1	321.9	1667.0	1023.2	4.2	1439.2	391.5	1830.7	-1047.6	3.7

Source: Direction of Trade Statistics (DOT), 2004

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